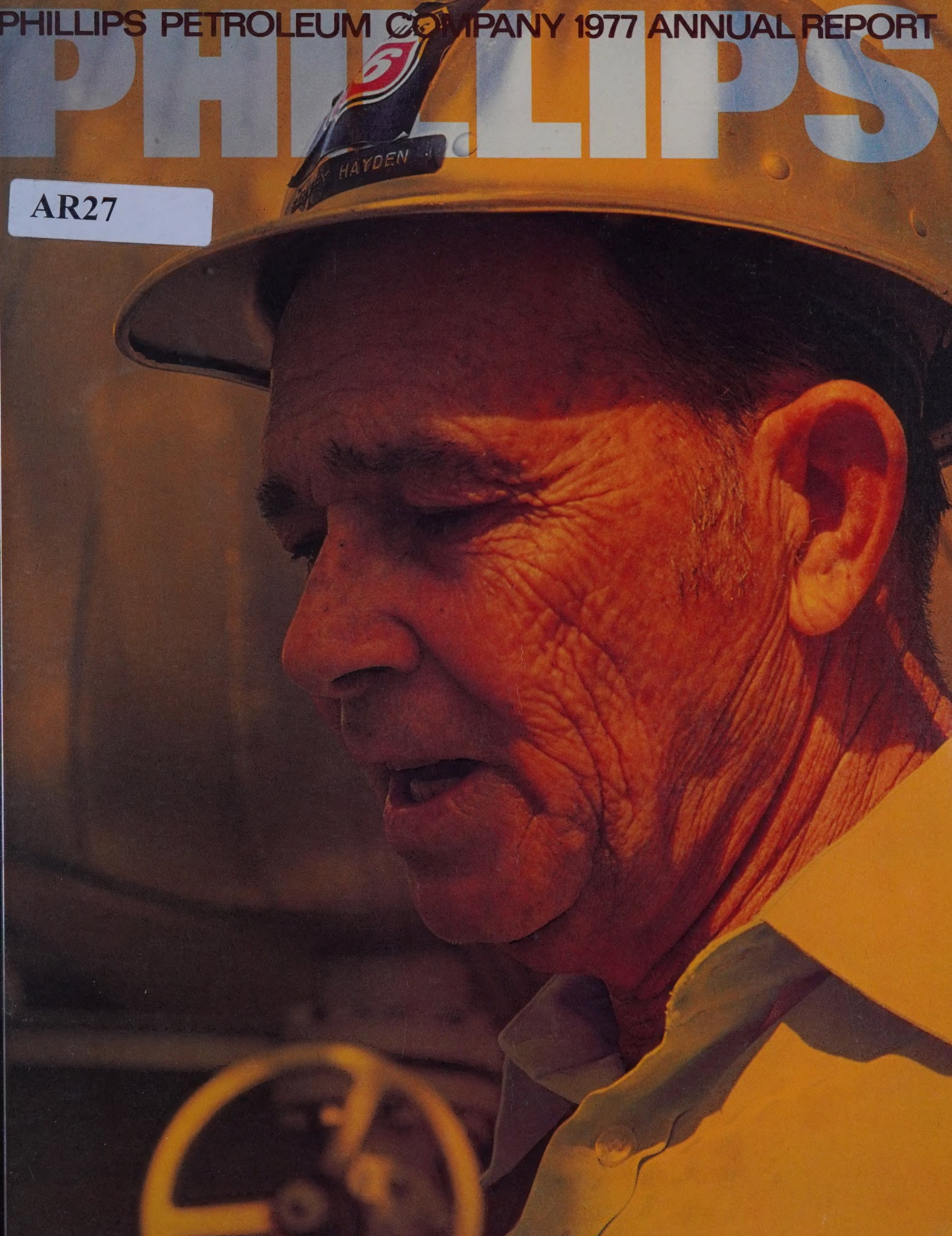


# PHILLIPS

AR27









## ABOUT THE COVER:

Harvey H. Hayden is one of 8,000 Phillips employees whose job is to provide energy and chemicals to people around the world. Hayden, a 36-year employee, supervises the Kingfisher, Oklahoma, natural gas liquids extraction plant (left), a new facility completed in 1977 to help increase the Company's output of fuel and chemical raw materials.

# highlights

| FINANCIAL                            | 1977            | 1976            |
|--------------------------------------|-----------------|-----------------|
| Total revenues .....                 | \$6,405,800,000 | \$5,836,900,000 |
| Net income .....                     | \$ 516,900,000  | \$ 411,700,000  |
| Per average share outstanding ...    | \$ 3.37         | \$ 2.69         |
| Return on average total assets ..... | 9.4%            | 8.3%            |
| Dividends paid .....                 | \$ 149,500,000  | \$ 133,700,000  |
| Per share .....                      | \$ .975         | \$ .875         |
| Average shares outstanding .....     | 153,350,000     | 152,783,000     |
| Capital expenditures .....           | \$1,127,700,000 | \$ 764,400,000  |
| Total assets at year-end .....       | \$5,836,500,000 | \$5,247,600,000 |

## OPERATING — net barrels daily

### Crude oil produced

|                                                                   |           |           |
|-------------------------------------------------------------------|-----------|-----------|
| United States .....                                               | 117,000   | 115,000   |
| Outside U. S. ....                                                | 148,000   | 138,000   |
| Natural gas liquids produced .....                                | 138,000   | 131,000   |
| Total liquids produced .....                                      | 403,000   | 384,000   |
| Crude oil refined .....                                           | 297,000*  | 318,000   |
| Petroleum products sold .....                                     | 532,000*  | 577,000   |
| Natural gas produced — net<br>thousands of cubic feet daily ..... | 1,343,000 | 1,380,000 |

\*Decreases from 1976 figures influenced by sale of West Coast refining and marketing properties on April 1, 1976.

"Phillips," "the Company," "we" and "our" are used interchangeably in this report to refer to the business of Phillips Petroleum Company and its consolidated subsidiaries. Where reference is made to a particular company, it is wholly owned unless otherwise stated. The Company's consolidation policy is to include in financial statements the accounts of companies in which more than 50% interest is held.

Phil-AD CA, Marlex, Ryton, K-Resin, Ultrakan, Solprene and Philprene are trademarks for the Company's products named in this report.

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## to the owners

In 1977 Phillips expanded its production of crude oil and natural gas liquids and broadened its search for new reserves. Major accomplishments included the start of oil production from Alaska's North Slope, the beginning of natural gas sales from fields in the Norwegian North Sea and the opening of two oil-producing areas in Indonesia. In addition, the Company expanded its U. S. coal and uranium reserves and took important steps toward developing them.

Expansion also marked the activities of our chemicals business, where the emphasis was on increasing production capacity to meet rising demand for our basic petrochemicals and plastic resins.

The Company's earnings were \$517 million, or \$3.37 a share, compared with 1976 earnings of \$412 million, or \$2.69 a share. Earnings represented in 1977 a return of about nine cents on every dollar the Company has invested. Revenues were \$6.4 billion, compared with \$5.8 billion in 1976. Our capital expenditures totaled \$1.1 billion, an increase of 48% over 1976 expenditures.

Dividend increases authorized by the board in April 1977 and again in January 1978 brought the annual rate from 90 cents to \$1.20 a share, an increase of 33%.

### Recapping 1977

The Company's earnings growth in 1977 stemmed from better prices for petroleum and natural gas and increasing worldwide production of crude oil and natural gas liquids.

Our crude oil output in 1977 rose both in the United States and abroad. Of special importance was the beginning of production from the North Slope of Alaska, which enabled us to increase our U. S. oil production for the first time since 1974. Production outside the U. S. increased as the result of higher output in Nigeria and the start-up of production from two areas in Indonesia.

Production from the Ekofisk operations in the Norwegian North Sea, where Phillips holds a 37% interest, was only slightly higher because of temporary production shutdowns and delays in completion of facilities. However, by year-end three of the seven Ekofisk area fields were in production and output was averaging a record 391,000 barrels a day.

Earnings in 1977 also benefited from the start of natural gas sales from the Ekofisk area fields. In the U. S., our natural gas production declined, although prices were higher.

Performance of our refining and marketing operations benefited from a vigorous streamlining pro-

gram, and efforts to further increase the efficiency of this segment of our business are continuing. During the year Phillips also made a major commitment toward making more refined products available to consumers by taking steps to double the capacity of our refinery in Sweeny, Texas. This construction and modernization program is expected to be completed by 1980.

A half-dozen major expansions to our U. S. chemical operations were completed or under way at year-end. These expansions will increase our capacity to manufacture various plastics and to produce raw materials for the chemical industry. The largest expansion will double our capacity to make ethylene, a building block for many plastics and other chemical products.

### Outlook for 1978

In 1978 earnings are expected to rise again. Our production of crude oil and natural gas liquids both in the U. S. and abroad should be higher. And for the first time in eight years we expect to increase our worldwide production of natural gas.

W. F. Martin, chairman, and Wm. C. Douce, president, at the Company's new Bartlesville Information Center. Near completion at year-end, the Center will contain expanded data processing facilities and office space.





Our efforts to make more energy available to U. S. consumers are being accelerated. Nearly \$700 million of our capital authorization budget is directed toward exploration, production, processing and distribution of energy in the U. S.

The expanding search for new reserves of oil and natural gas involves substantial risks. Exploration in remote areas, such as Alaska, the North Sea and in deep-water regions is very expensive. One well may cost \$20 million or more. Operating conditions are difficult, and if reserves are found, further risks must be assumed in pioneering new production technology and perfecting new personnel skills. There are unavoidable hazards associated with making sizable investments in foreign countries. Changes in government tax policies or contract provisions made unilaterally can limit both Company profitability as well as the amount of petroleum ultimately available to consumers.

We assume these risks because we feel that — even with conservation efforts — the demand for energy will continue to grow. In 1977 demand for petroleum in the U. S. rose nearly 6% to 18.4 million barrels a day. To satisfy this demand, the U. S. was forced to import almost half of its petroleum supplies. These imports cost Americans \$120 million a day and accounted for the largest share of the nation's record trade deficit in 1977. Even the new production from Alaska's North Slope will enable the country to hold the line on imported oil for only two years or so.

If America is to become more energy self-reliant in the future, actions should be taken now. It can take up to 10 years to find and begin producing a major offshore oil field, five years to open a new coal mine or a uranium mine and processing plant, 10 years to build a nuclear power plant.

Yet the need for immediate actions is hard for most people to appreciate — and understandably so. There are no signs of an energy problem. There are no long lines at the gasoline stations. Fuel supplies are adequate for homes and factories. There is a temporary worldwide "surplus" of crude oil.

### **A Meaningful Energy Plan**

We need to look beyond the immediate situation and consider the consequences if we do not take actions now. Studies by experts both in and outside government have repeatedly shown that in the late 1980s or early 1990s worldwide demand for oil will exceed production. Nations will be competing — perhaps desperately — for available supplies.

If by that point the United States has not adequately built up its energy supplies, our living standards will suffer from higher costs and inflation, job opportunities will be curtailed and our nation's economy and security and its role as a world leader will be severely affected.

To prevent this, we need to move as rapidly as possible toward an economic environment that:

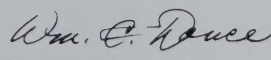
- Encourages further energy conservation.
- Brings about fuel prices adequate to offset inflationary costs.
- Provides the risk capital needed to replace U. S. petroleum reserves now being consumed.
- Stimulates the development of new technology required for greater use of coal and alternate fuels.

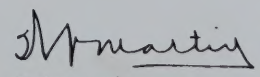
These conditions can best be provided by an economic environment free of disincentives caused by heavy federal intervention. It has been proven time and again that the dynamics of an unrestricted market can solve infinitely more problems than can file drawers of rules, directives and limitations. However, the National Energy Plan in its current form reflects the attitude that government should be involved in virtually every aspect of energy production and consumption.

It is doubtful that any energy plan adopted will be warmly supported. Energy producers may feel it will not generate sufficient funds to find the new reserves needed to replace those now being depleted. Energy consumers will not welcome the prospect of higher fuel bills. And environmentalists may not be pleased because any emphasis on increased energy production raises the risk of environmental damage.

Nevertheless, every effort should be made to adopt an effective National Energy Plan and make it work. Special interests and regional differences should be set aside. We are one country and our future strength depends on how successfully we can pursue a program of conserving more and producing more energy.

For the Board of Directors,

  
President and  
Chief Operating Officer

  
Chairman and  
Chief Executive Officer

March 21, 1978



## phillips at a glance · 1977

Phillips Petroleum Company finds and develops natural resources and transforms them into fuels and chemicals. Its major activities are carried out by three worldwide operating groups — Natural Resources, Petroleum Products and Chemicals. The group operations are closely interlinked so that raw materials can be processed and products produced and distributed to consumers efficiently and economically.

The flow chart at right illustrates the interweaving of Company activities. The Natural Resources Group provides about three-quarters of the raw material for the refining operations of the Petroleum Products

Group. The Natural Resources and Petroleum Products groups together meet almost two-thirds of the raw material needs of the Chemicals Group.

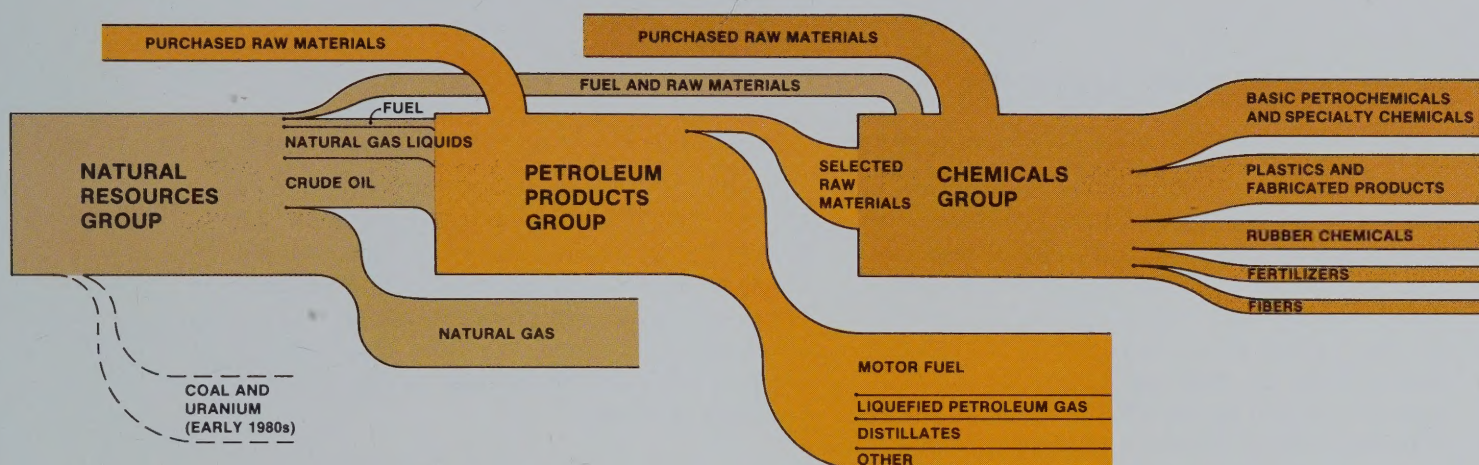
The Company's operating groups are supported by several staff organizations, including a large research and development team. In all, the Company employs 28,400 people in 33 countries. Phillips products and processes are licensed in 29 countries. At the end of 1977 Phillips assets totaled \$5.8 billion.

The Company is headquartered in Bartlesville, Oklahoma, where it was founded in 1917. Phillips is owned by 122,300 stockholders.

| GROUPS                   | NATURAL RESOURCES                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|--------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| RESPONSIBILITIES         | <p>The Natural Resources Group's principal responsibilities are to find, develop and produce energy minerals, primarily crude oil, natural gas and natural gas liquids. During 1977 the group produced petroleum energy in eight countries. In addition, it has located substantial U.S. coal and uranium reserves, which will come into production in the early 1980s. The group also has geothermal and oil shale interests.</p> <p>With 6,900 employees, the Natural Resources Group explores for energy in more than 20 countries. The net investment of the group in plants, properties and equipment totals \$2.3 billion.</p> |
| MAJOR DEVELOPMENTS       | <ul style="list-style-type: none"> <li>• Increased worldwide production of both crude oil and natural gas liquids.</li> <li>• Started natural gas sales from the Norwegian North Sea and began oil production in Indonesia.</li> <li>• Began construction of the first uranium mine in the Company's energy resource expansion program.</li> </ul>                                                                                                                                                                                                                                                                                   |
| CAPITAL EXPENDITURES     | <p>\$817.6 million. The group's major expenditures went toward continuing development of oil and gas fields and related transportation and processing facilities in the Ekofisk area of the Norwegian North Sea; acquiring leases in Alaska's Cook Inlet, and developing various fields in Indonesia and Nigeria and on the Alaskan North Slope.</p>                                                                                                                                                                                                                                                                                 |
| REVENUES AND NET INCOME* | <p>FOR ALL PETROLEUM OPERATIONS:</p> <p>Revenues:</p> <p>U.S. .... \$4.5 billion</p> <p>Outside U.S. .... \$1.1 billion</p> <p>Net Income:</p> <p>U.S. .... \$321 million</p> <p>Outside U.S. .... \$102 million</p>                                                                                                                                                                                                                                                                                                                                                                                                                 |

\*Refer to five-year summary of revenue and net income on page 29.





In the flow chart, raw material and fuel inputs to the Petroleum Products and Chemicals groups are sized according to their relative contribution to total group input, calculated on a volume basis (barrels of oil equivalent). Outputs

for each group are shown in the same manner except in the Chemicals Group, where product outputs are sized according to their relative contribution to total group revenues.

## PETROLEUM PRODUCTS

The Petroleum Products Group refines petroleum liquids into usable forms of energy, which it transports and distributes to consumers. The group operates five refineries in the U.S. and has interests in four foreign refineries. Products are distributed through both Company and independently owned service stations and through other types of marketing outlets. The group also conducts a major marine shipping business and operates 6,800 miles of pipelines.

Group operations are conducted by 8,000 employees in four countries. Net investment in plants, properties and equipment totals \$634 million.

- Started work on expansion of the Sweeny, Texas, refinery that will nearly double present capacity.
- Completed consolidation of marketing organization to improve operating performance and profitability.
- Moved closer to balancing petroleum product sales with the Company's refinery production volumes.

\$86.5 million. The group's major expenditures were to cover the Company's share of the cost of the trans-Alaska pipeline; initial work on expansion of the Sweeny refinery; construction of facilities to supply feedstock to the new ethylene plant expansion at Sweeny, Texas, and investments to conserve energy and for pollution control.

These figures are for the petroleum activities of the Natural Resources and Petroleum Products groups and exclude coal and uranium activities. Revenues and net income for petroleum operations were improved in 1977 because of higher crude oil and natural gas liquids production, better prices for most products and efficiencies realized in refining, transportation and marketing operations.

## CHEMICALS

The Chemicals Group primarily produces petrochemicals from natural gas, natural gas liquids and other feedstocks. Principal products are synthetic rubber, carbon black, polyolefin plastics, cyclohexane for nylon manufacture, ethylene, special hydrocarbons for industrial and laboratory uses, nitrogen fertilizer, synthetic fibers, fabricated plastic products and packaging products.

The group has interests in 40 U.S. plants and 26 foreign operations plus sales offices in 23 countries. It has 8,700 employees. Net investment in plants, properties and equipment totals \$538 million.

- Increased sales volumes for most of the group's major product lines.
- Moved toward completing a billion pound-per-year capacity ethylene plant and a major expansion of our U.S. capacity to produce both low and high density polyethylene.
- Introduced major innovation in paperboard packaging.

\$181 million. The group's major expenditures went to cover a portion of the construction of a one billion-pound annual capacity addition to our ethylene plant at the Sweeny, Texas, refinery; a capacity expansion at our paraxylene facilities in Puerto Rico, and enlargements of polyethylene and polypropylene capacities at Adams Terminal, near Houston.

### FOR CHEMICAL OPERATIONS:

Revenues: ..... \$1.4 billion

Net Income: ..... \$68 million

Sales prices and volumes increased for most of the group's products in 1977. However, raw material and operating costs increased at an even greater rate, resulting in lower earnings than for the year 1976.



# natural resources

For the Natural Resources Group, 1977 was an exceptionally good year. Worldwide production of crude oil and natural gas liquids increased 5% over the previous year. The Company also made several significant oil discoveries and broadened its overall resource base by the addition of substantial new reserves of lignite coal.

In the United States, crude oil output increased with the completion of the trans-Alaska pipeline, allowing production from the Prudhoe Bay Field on the North Slope. Overseas, production rose as output in Nigeria increased and two oil-producing areas of Indonesia were brought into operation. Norwegian North Sea production was approximately the same as in 1976. However, in December production reached a record level. Output is expected to continue expanding through 1980.

Worldwide natural gas production dropped 3% in 1977, but in the fourth quarter output began to rise as a result of natural gas sales from the Norwegian North Sea.

| PETROLEUM LIQUIDS<br>PRODUCED | Net Barrels Daily |         |
|-------------------------------|-------------------|---------|
|                               | 1977              | 1976    |
| UNITED STATES                 |                   |         |
| Crude oil .....               | 117,000           | 115,300 |
| Natural gas liquids .....     | 138,200           | 130,800 |
| Total U. S. ....              | 255,200           | 246,100 |
| OUTSIDE UNITED STATES         |                   |         |
| Crude oil .....               | 147,900           | 137,300 |
| Natural gas liquids .....     | 200               | 300     |
| Total outside U. S. ....      | 148,100           | 137,600 |
| WORLDWIDE                     |                   |         |
| Crude oil .....               | 264,900           | 252,600 |
| Natural gas liquids .....     | 138,400           | 131,100 |
| Total worldwide .....         | 403,300           | 383,700 |

Phillips drilled or participated in 56 oil and gas exploratory wells in 1977. Twenty-one discoveries resulted from these projects. Capital and exploration expenditures to acquire, find and develop oil and gas reserves rose 61% to \$818 million. Of this amount, \$64 million consisted of non-capitalized geological and geophysical expenses and \$70.2 million were dry hole costs.

In addition, the Company participated in almost 200 other exploratory wells in the United States through farmout arrangements. Through these arrangements, Phillips contracts with other exploration firms for drilling on Company acreage. In return, the contracting firm receives an interest in any production that is found.

| DRILLING STATISTICS*            | Exploratory |      | Development |      |
|---------------------------------|-------------|------|-------------|------|
|                                 | 1977        | 1976 | 1977        | 1976 |
| UNITED STATES                   |             |      |             |      |
| Gross wells .....               | 19          | 43   | 506         | 595  |
| Net wells:                      |             |      |             |      |
| Oil .....                       | —           | 5    | 74          | 91   |
| Gas and gas condensate .....    | 1           | 3    | 45          | 36   |
| Dry holes .....                 | 4           | 10   | 15          | 34   |
| Total .....                     | 5           | 18   | 134         | 161  |
| OUTSIDE UNITED STATES           |             |      |             |      |
| Gross wells .....               | 37          | 41   | 18          | 24   |
| Net wells:                      |             |      |             |      |
| Canada .....                    | —           | 1    | —           | 2    |
| Latin America .....             | 1           | —    | —           | —    |
| Europe .....                    | 2           | 3    | 4           | 3    |
| Africa .....                    | 3           | 2    | 1           | 2    |
| Middle East .....               | —           | 1    | —           | —    |
| Southeast Asia .....            | 7           | 6    | 1           | 1    |
| New Zealand and Australia ..... | 1           | —    | —           | —    |
| Total .....                     | 14          | 13   | 6           | 8    |
| Oil .....                       | 5           | 3    | 4           | 6    |
| Gas and gas condensate .....    | —           | 2    | 1           | 2    |
| Dry holes .....                 | 9           | 8    | 1           | —    |

\*Excludes farmout arrangements.

## Reserves

Reserves of liquids and natural gas dropped slightly as production exceeded additions resulting from exploration and development programs. Estimated worldwide proved reserves of liquids (crude oil, condensate and natural gas liquids) decreased 3%. Natural gas reserves declined 9%.

Phillips estimates reserves on the basis of current reservoir information, technology and economics. Although the producibility of these reserves is reasonably certain, it should be recognized that reserves cannot

At temperatures of minus 50 degrees or lower, drilling of a part-interest exploratory well was under way at year-end on Ellef Ringnes Island in the Canadian Arctic.







be measured precisely. Year-end estimates of proved reserves were:

#### PROVED RESERVES — WORLDWIDE

|                                      | 1977  | 1976  |
|--------------------------------------|-------|-------|
| Liquids (millions of barrels)        |       |       |
| U. S. ....                           | 550   | 555   |
| Outside U. S. ....                   | 1,109 | 1,148 |
| Natural gas (billions of cubic feet) |       |       |
| U. S. ....                           | 4,580 | 5,196 |
| Outside U. S. ....                   | 5,672 | 6,020 |

Included above is the Company's share of reserves as provided by the terms of production-sharing contracts with the governments of other countries.

Not included are the reserves of Pacific Petroleum Ltd., nor the reserves of any other non-consolidated company.

In the U. S. the Company has available to it additional reserves through contracts

and other arrangements. Year-end estimates of these reserves were:

#### ADDITIONAL AVAILABLE RESERVES — U. S.

|                                           | 1977  | 1976  |
|-------------------------------------------|-------|-------|
| Liquids (millions of barrels) .....       | 265   | 261   |
| Natural gas (billions of cubic feet) .... | 2,000 | 1,777 |

#### Prices

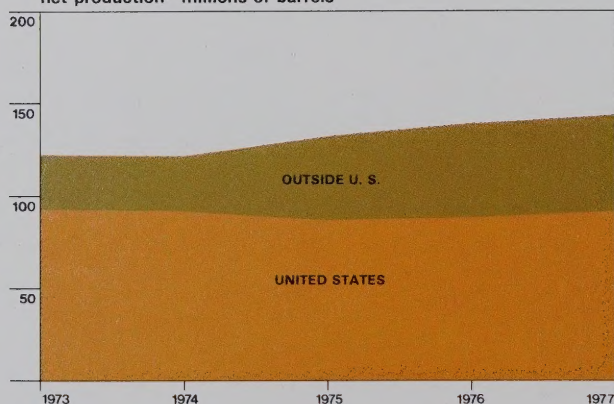
Phillips realized higher average prices for both petroleum liquids and natural gas in 1977. In the United States, approximately 71% of the Company's crude oil production was subject to federal price controls during the year. The remaining 29% not under price controls was produced from some 900 stripper leases, which have an average output of less than 10 barrels per well a day.

#### AVERAGE PRICES—Petroleum Liquids and Natural Gas

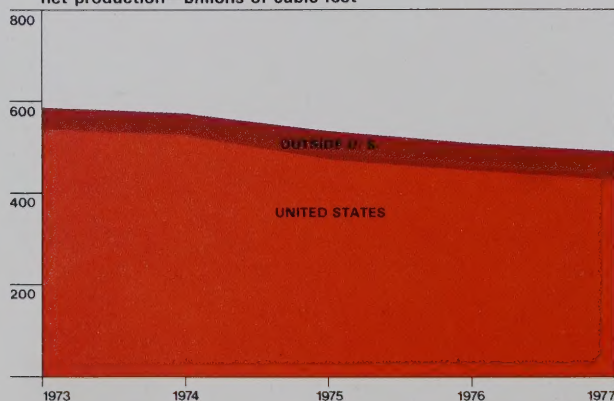
|                                                                | 1977    | 1976    |
|----------------------------------------------------------------|---------|---------|
| Crude oil (per barrel)                                         |         |         |
| U. S. ....                                                     | \$ 8.41 | \$ 8.01 |
| Norway (landed Teesside) .....                                 | 14.16   | 12.90   |
| Nigeria (at Brass River Terminal) ..                           | 14.58   | 13.11   |
| Natural gas liquids — U. S. (per barrel)                       | 6.01    | 4.91    |
| Natural gas — U. S.*                                           |         |         |
| (per thousand cubic feet) .....                                | .71     | .47     |
| (converted to barrels of oil on energy equivalent basis) ..... | 4.16    | 2.75    |

\*Excludes sales of liquefied natural gas from Kenai, Alaska.

CRUDE OIL AND NATURAL GAS LIQUIDS  
net production—millions of barrels



NATURAL GAS  
net production—billions of cubic feet



Higher average prices for U. S. natural gas stemmed partly from actions of the Federal Energy Regulatory Commission which allowed increases in some categories of gas production sold on the interstate market.

Prices were generally higher in the intrastate (natural gas produced and sold in the same state) markets, resulting in substantially higher revenues. In 1977, 26% of the Company's natural gas sales volume was made in intrastate markets, compared with 23% in 1976. Phillips also realized higher prices for liquefied natural gas delivered from our Kenai, Alaska, liquefaction plant to two Japanese utilities.

Natural gas from the Norwegian North Sea en route to four European countries began flowing during the year through this terminal at Emden, West Germany.







## North America

U. S. oil production increased 1%, compared with the 3% decline of the previous year. The increase stemmed from the mid-1977 start-up of production from the Prudhoe Bay Field on the North Slope of Alaska. At year-end North Slope production was adding 12,800 barrels daily to our U. S. crude oil output. After exclusion of royalty, Phillips holds a 1.8% revenue interest in the Prudhoe Bay Field. We have a 1.66% interest in the trans-Alaska pipeline.

Phillips natural gas liquids production rose for the second consecutive year, registering a 6% increase in 1977. The increase stems principally from a continuing program to extract more liquids from the volume of natural gas processed in Phillips plants.

Reflecting an industrywide trend, Phillips U. S. natural gas production declined 7%, compared with the 5% decline recorded in 1976. The 1977 decline in natural gas output

was tempered by the start-up of production from several new fields in Mississippi, Louisiana and Texas.

About 21% of the Company's gas production and 12% of its oil production came from offshore fields in 1977.

At the October 1977 federal lease auction of tracts in the Cook Inlet of Alaska, Phillips was highest bidder on five full-interest tracts and had a 50% interest in two groups bidding highest on two other tracts. The seven tracts total about 34,000 net acres. Drilling cannot begin until drilling permits are granted and environmental and other governmental approvals are received. We expect it will be late 1978 before we can start an exploratory drilling program.

To increase oil production from known fields in the U.S., Phillips continued its secondary and tertiary recovery programs. Secondary recovery increases production primarily by the injection of water or gases into the underground formation. In 1977, 41% of the Company's U. S. oil production came from some 400 secondary recovery projects. Tertiary production from a fieldwide carbon dioxide-waterflood operation at Lick Creek, Arkansas, continued to increase. Three tertiary recovery test programs in Arkansas and Oklahoma, involving the injection of chemicals, steam or high-pressure flue gas, showed promising results.

In Canada, crews began drilling a well in the Arctic Islands, about 800 miles from the North Pole. The well marks the Company's first exploratory drilling effort in this new petroleum frontier area.

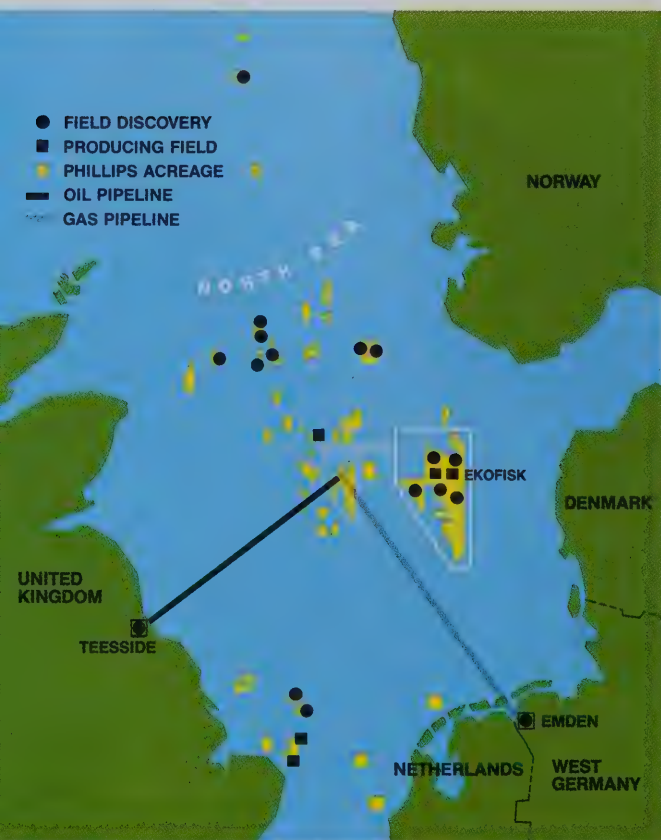
## Norway

Natural gas sales began in September from the Ekofisk Field in the Norwegian North Sea, where Phillips has a 37% interest. The gas is being sold under 20-year contracts to a consortium of German, Dutch, Belgian and French transmission and distribution companies. In December gas deliveries averaged 768 million cubic feet per day.

Oil production in 1977 from the Ekofisk area fields averaged about the same as in 1976. Output did not increase as expected primarily because of a partial shutdown of

Workman puts final coat of paint on production equipment at one of our two new oil-producing areas in Indonesia.

## PHILLIPS NORTH SEA INTERESTS





the Ekofisk Field after a well on "B" Platform flowed out of control for seven and a half days in late April.

Late in the year, Ekofisk area oil and gas output increased substantially when the West Ekofisk and Cod fields were brought into production. In December Ekofisk area oil production averaged a record 391,000 barrels a day. Production is expected to further increase in late 1978 when development of the Tor Field is completed and facilities for han-

dling natural gas liquids are finished at Teesside Terminal in England. The facilities, which are for crude stabilization and natural gas liquids processing, were not completed in 1977 largely because of labor and material delivery problems.

Production from Ekofisk area fields is expected to continue to rise as three other Norwegian North Sea fields — Albuskjell, Eldfisk and Edda — begin producing between late 1978 and the end of 1980.





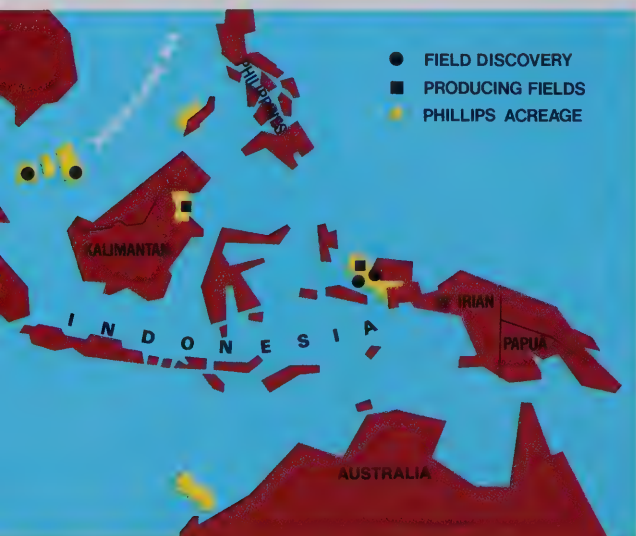
The latest estimate of the Phillips Group investment in the Ekofisk area development totals \$5.2 billion. This figure includes development of the seven oil and gas fields, construction of processing facilities at Teesside and Emden and the cost of building pipelines to these facilities. The Company's portion of the total investment is projected to be \$1.3 billion.

In an exploratory project some 20 miles west of the Ekofisk area, a group of companies including Phillips, drilled a discovery well. Statoil, the Norwegian State Oil Company, is the operator for the project in Block 1/9. Evaluation of the area continues.

### United Kingdom

Phillips made two oil finds during 1977 in the United Kingdom sector of the North Sea. One discovery, the Wendy, is located about 100 miles northeast of the Shetland Islands. The other discovery, called Toni, is located about 160 miles northeast of Aberdeen, Scotland. Evaluation drilling is under way to determine the commercial potential of the structure. Toni is about three and one-half miles from the Thelma well, a 1976 oil discovery. The Company is studying a combined production plan for both fields, in which our interest is 35%.

### PHILLIPS FAR EAST INTERESTS



In all, Phillips holds interests in seven undeveloped oil discoveries in U. K. waters, one undeveloped gas field and two producing gas fields. The producing fields, Hewett and North-of-Hewett, produced an average of 129 million cubic feet per day to the Company's 19% interest during 1977.

### Nigeria

In Nigeria production to our 22½% interest averaged 38,500 barrels of oil per day, 16% higher than in 1976. During the year, one field was discovered and another brought into production. At year-end, a total of 13 oil fields were in production.

### Indonesia

Production was started in two separate areas in Indonesia during the year. In the Northeast Kalimantan (formerly Borneo) contract area, the Sembakung Field went into production in June. By year-end, production to Phillips interest was averaging 4,300 barrels of oil per day.

On Salawati Island, part of the 9.9 million-acre Teluk Berau contract area, production from the Salawati "A" Field began in November. Three additional oil fields, including two 1977 discoveries, were placed on production in December. Phillips interest in this production was averaging 26,900 barrels of oil per day by year-end.

### South America

Late in the year, the Company started an exploratory well on a million-acre tract in the Llanos Basin of Colombia, where Phillips has a 100% interest. An exploratory well begun earlier in the year was abandoned because of drilling difficulties.

Exploratory drilling began in late 1977 on a 2.6 million-acre tract in Bolivia's Chaco Basin. Phillips has a 70% interest in the project.

### Deep-water Exploration

The new *Discoverer Seven Seas* deep-water drillship drilled its first well on the West Africa offshore continental shelf in Ivory Coast waters. Gas was encountered, but additional drilling will be necessary to determine if this is a commercial prospect.

Development of uranium reserves in northwest New Mexico began in 1977 with initial construction of mining and ventilation shafts.







The drillship is operated by the four-company Seagap Group in which Phillips has a 25% interest. The ship is capable of drilling in water depths of 6,000 feet. During the year, the ship also drilled two wells in the Red Sea off Egypt but they did not encounter hydrocarbons in commercial quantities. The ship then returned to the west coast of Africa, where through the Seagap Group, Phillips holds interests in three large offshore tracts in Congo-Brazzaville, Morocco and Mauritania.

In a continuing deep-water program offshore New Zealand, Phillips moved toward earning an 18% interest in 117 million acres. An exploratory well encountered non-commercial quantities of natural gas on one of many structures being investigated. This well is one of the first in the world to test measurable quantities of hydrocarbons in waters over 2,000 feet deep.

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#### NET OIL AND GAS ACREAGE AT YEAR-END

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##### UNITED STATES

|                 |           |
|-----------------|-----------|
| Total .....     | 5,965,000 |
| Producing ..... | 1,233,000 |

##### OUTSIDE UNITED STATES

|                                 |            |
|---------------------------------|------------|
| Canada .....                    | 2,130,000  |
| Latin America .....             | 4,679,000  |
| Europe .....                    | 1,002,000  |
| Africa .....                    | 6,895,000  |
| Middle East .....               | 20,000     |
| Southeast Asia .....            | 10,139,000 |
| New Zealand and Australia ..... | 23,829,000 |
| Total outside U. S. ....        | 48,694,000 |
| Producing outside U. S. ....    | 126,000    |

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#### Coal

Through additional options and leases, Phillips expanded its Gulf Coast holdings of lignite coal acreage from 620,000 acres to 746,000 acres. Total lignite reserves were increased by a third to more than four billion tons. More than 40,000 holes have been drilled to prove these reserves.

Most of the Company's lignite coal reserves are in the Wilcox Trend in eastern Texas, southern Arkansas, Mississippi and Louisiana. Production is expected to start in the early to mid-1980s, with prospective purchasers being electric utilities.

#### Uranium

Construction started on the 3,400-foot main uranium mine shaft and surface facilities in northwestern New Mexico, where Phillips holds options and leases on 79,000 acres. The mine, expected to be in operation in the early 1980s, will tap uranium oxide deposits in a 1,900-acre area. Reserves in this area are estimated to exceed 25 million pounds. An ongoing drilling program on other portions of our northwestern New Mexico acreage has indicated the probability of additional uranium reserves.

A mill is planned near the mine site and is projected to produce around two million pounds a year of refined uranium oxide, or "yellowcake". We expect to sell most of the mill's production on long-term purchase contracts.

Phillips has other uranium prospects in eight Western states.

#### Geothermal

At year-end the Company was drilling two geothermal exploratory wells and conducting well tests to determine the reservoir size and commercial potential of two discoveries. The first find was located in southwestern Utah in 1975 and was followed by a discovery in northwestern Nevada in 1976. An exploratory drilling program begun in late 1977 will evaluate prospects in California, Nevada, Idaho and Utah.

#### Oil Shale

Activities at the Company's Utah oil shale project continue to be suspended pending the outcome of lawsuits concerning title to the lands covered by federal oil shale leases.

#### Pacific Petroleum Ltd.

The Company has a 48% interest in Pacific Petroleum Ltd., an integrated Canadian petroleum company. Pacific Petroleum's production included 42,900 net barrels of crude oil and natural gas liquids per day, 11% higher than in 1976. Although Pacific Petroleum's natural gas production decreased 9% to 310 million cubic feet per day, natural gas revenues rose 40%.



# petroleum products

The Petroleum Products Group achieved a profitable performance in 1977, although results were slightly below those of the previous year. Increased operating and raw material costs pushed refined product prices higher, although prices for gasoline and other federally controlled products remained below price control ceilings.

## Feedstock Supplies

Crude oil imported for our refineries decreased to 33% of total crude oil refinery runs, compared with 38% in 1976. The need for imports was offset to a small degree when oil from the North Slope of Alaska became available in the last half of the year and several shipments were delivered to the Company's Borger, Texas, refinery for processing.

Seaway pipeline, in which Phillips owns a 42% interest, completed its first full year of operation. The 510-mile pipeline began operating in November 1976. It runs from Freeport, Texas, on the Gulf Coast to Cushing, Oklahoma, where it connects to other pipelines. In 1977, 11,800 barrels a day of crude oil were delivered to the Company's Kansas City refinery by way of Seaway and connecting pipelines.

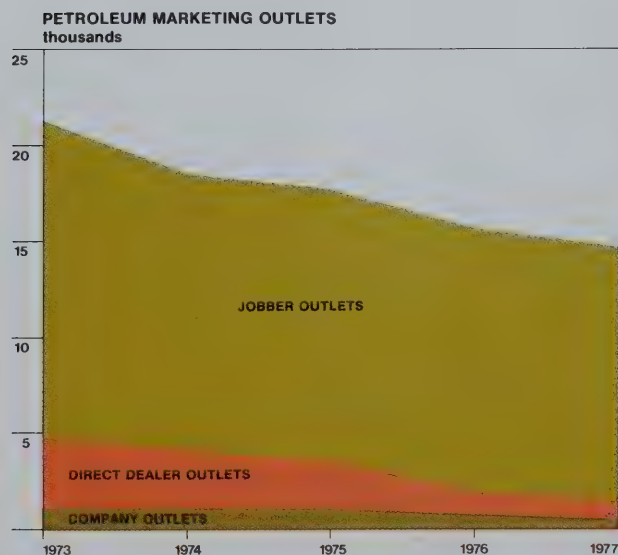
Seaway was planned to tie in with Seadock, a proposed deep-water terminal off the coast near Freeport. Organized by nine companies including Phillips, Seadock would have handled very large crude oil carriers

bringing foreign crude oil to the United States. In January 1977, the federal government issued a license for the development of the deep-water port. However, the terms of the license proved unacceptable to several participants, who withdrew from the venture. The project was abandoned after Phillips and its remaining partners attempted unsuccessfully to seek other participants and to work out more satisfactory terms for the license.

## Refinery Operations

Phillips began in 1977 a \$400 million modernization and expansion program to nearly double the capacity of the refinery in Sweeny, Texas. When the expansion is completed in 1980, the refinery will be able to process 190,000 barrels a day of crude oil, including 150,000 barrels a day of high-sulfur crude. At present, the refinery can process only low-sulfur crude oils. Phillips is unique within the industry because it produces large quantities of the hydrogen essential to removing sulfur from crude oil. The availability of this hydrogen, produced in the refinery's ethylene plants, was a key factor in making the expansion commercially feasible.

During 1977 our domestic refineries operated at 92% of capacity, compared with the industry average of 90%. Runs at the Kansas City refinery were affected by fires that occurred in late 1976. Our other U.S. refineries operated at generally optimum rates, allowing for essential downtimes for maintenance.



## CRUDE OIL CAPACITIES AND RUNS — 1977

| Refinery                   | Average Barrels Daily |         |
|----------------------------|-----------------------|---------|
|                            | Capacity              | Runs    |
| Sweeny, Texas .....        | 104,000               | 97,000  |
| Borger, Texas .....        | 100,000               | 98,000  |
| Kansas City, Kansas .....  | 90,000                | 72,000  |
| Woods Cross, Utah .....    | 23,000                | 24,000  |
| Great Falls, Montana ..... | 6,000                 | 6,000   |
| Total .....                | 323,000               | 297,000 |

Natural gas liquids are also processed at two of the Company's domestic refineries.



Natural gas liquids runs were 103,000 barrels a day at the Borger refinery and 62,000 barrels a day at the Sweeny refinery.

The average composite cost of crude oil feedstock for our domestic refineries was \$12.77 per barrel in 1977, an 11% increase over 1976. This price includes transportation and entitlements.

Entitlements are determined by the federal government for each refiner. They serve to equalize crude oil costs, thereby providing consumers with more uniform prices for petroleum products. In 1977 entitlements had the effect of increasing Phillips crude cost 22 cents per barrel.

During most of the year, the Borger refinery used a new Phillips-developed additive which increases the volume of gasoline produced while decreasing the amount of less valuable coke and gas. The additive can be used in catalytic cracking units processing oil containing heavy metals such as copper and nickel.

Based on domestic refinery operations for the year, average percentages of feedstocks processed and products produced were as shown below:

| Feedstocks                       | Output                  |
|----------------------------------|-------------------------|
| Domestic crude oil 42%           | Motor fuels ..... 42%   |
| Imported crude oil 21%           | Chemical feedstocks 10% |
| Natural gas liquids 32%          | Distillates ..... 22%   |
| Miscellaneous hydrocarbons .. 5% | Consumer LPG .... 15%   |
|                                  | Other products .... 11% |

## Marketing

Petroleum products sales volume decreased by 8% from the 1976 volume. Most of this decline was attributable to the sale of West Coast refining and marketing properties in April 1976 and sale of Hawaiian marketing properties in April 1977. Excluding sales from these properties, the volume of products sold decreased 3%. The reduction is in line with our objective of more nearly balancing sales with refinery production volumes.

Higher operating and raw material costs forced prices on all refined products to increase in 1977. However, competition in the marketplace kept prices below price ceilings on products under federal controls. Controlled products include gasoline, aviation fuels and liquefied petroleum gases.

| PETROLEUM PRODUCTS SOLD       | Average Barrels Daily |         |
|-------------------------------|-----------------------|---------|
|                               | 1977*                 | 1976    |
| UNITED STATES                 |                       |         |
| Automotive gasoline .....     | 237,000               | 272,000 |
| Liquefied petroleum gas ..... | 119,000               | 101,000 |
| Distillates .....             | 72,000                | 87,000  |
| Aviation fuels .....          | 26,000                | 25,000  |
| Other products .....          | 37,000                | 43,000  |
| Total U. S. ....              | 491,000               | 528,000 |
| Outside U. S. ....            | 41,000                | 49,000  |
| WORLDWIDE .....               | 532,000               | 577,000 |

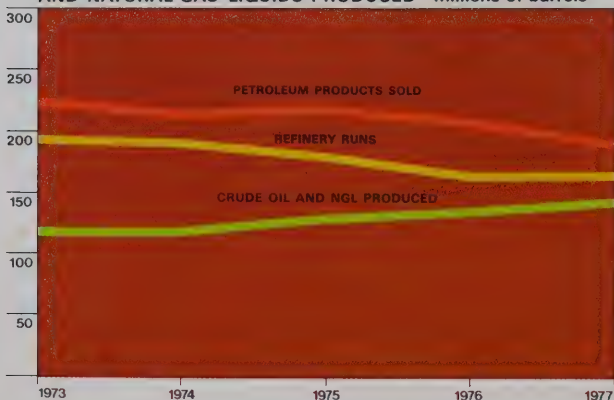
\*Decreases from 1976 figures influenced by sale of West Coast refining and marketing properties on April 1, 1976.

We completed a two-year program to streamline the marketing organization. Significant efficiencies were realized from the consolidation of administrative and marketing service activities formerly assigned to many smaller units.

We continued to stress improved efficiency in service station operations by working with our jobbers and dealers to reduce the number of marginal marketing outlets and to increase sales volume at the remainder. Similar emphasis was placed on Company owned and operated outlets. The chart on page 15 indicates progress in recent years.

Grading of an old lake bed was part of the site preparation for a major expansion that began at our Sweeny, Texas, refinery.

PETROLEUM PRODUCTS SOLD, REFINERY RUNS, CRUDE OIL AND NATURAL GAS LIQUIDS PRODUCED—millions of barrels









# chemicals

Phillips worldwide chemical operations produced higher revenues but lower earnings in 1977. Higher operating and raw material costs could not be fully recovered through higher prices because of industry surplus capacity during the year.

The Company's chemical revenues totaled \$1,273,600,000 in 1977, compared with \$1,229,600,000 in 1976. Earnings from chemical operations accounted for 13% of total Company earnings in 1977, compared with 18% in 1976. These figures do not include sales and equity in earnings of one domestic and 16 foreign-based companies in which Phillips owns interests of 50% or less.

Despite a small upturn in the fourth quarter in the U. S. and some overseas countries, profitability of the chemical industry showed little improvement. Phillips own performance benefited from its chemical diversification with revenue increases in some business lines canceling out lower revenues in others.

An addition that will nearly double capacity of our Sweeny, Texas, ethylene plant moved toward completion during the year.



Our position was further stabilized by our ability to meet most of our raw material needs from our own hydrocarbon production. We also benefited from more efficient use of fuel and feedstocks through improved energy conservation techniques.

## Basic Petrochemicals and Specialty Chemicals

Revenues from sales of basic petrochemical products and specialty chemicals increased slightly in 1977.

Sales volumes were higher for olefins, the most important building blocks in the chemical industry. Olefins produced by Phillips are used to make polyethylene, polypropylene, vinyl acetate monomer, ethylene glycol, ethylene oxide and acrylonitrile. All these products experienced strong growth rates.

Sales volumes of cyclic petrochemicals declined. These products are used primarily to manufacture synthetic fibers, sales of which experienced significant swings in 1977.

Specialty chemicals generally sold well. Higher volumes and prices were sufficient to cover rising production costs. These chemicals include high-purity hydrocarbons for research labs and aerosol propellants; petrosulfur compounds for agricultural chemicals, rubber and plastics production; solvents for paints and polymers; and drilling mud additives for petroleum industry drilling. Construction was authorized to build a petrosulfur plant in Western Europe.

Phillips Puerto Rico Core Inc., our petrochemicals manufacturing complex near Guayama, Puerto Rico, operated at 91% capacity and processed 45,500 barrels of feedstock per day. The complex makes many basic petrochemicals and motor fuel from naphtha, a crude oil derivative. In the third quarter, Phillips Paraxylene, Inc., a subsidiary of Puerto Rico Core, started production from a plant having a capacity of 470 million pounds per year of paraxylene, a raw material used in the manufacture of polyester fiber.

## Plastics

Sales revenues from plastic resins increased 5% in 1977, with polyethylene operations turning in the best performance. U. S.

Containers made by the revolutionary Ultrakan system developed by our Sealright subsidiary were commercialized during the year.





HOMECIDE  
**SOUP  
STARTER**



**PEAS VEGETABLE**

Makes 2 Quarts

NET WT. 10 OZ.



Marlex high-density polyethylene sales volumes reached a record high. Polyethylene output should increase in 1978 with completion of two plant additions. These additions will raise the Company's capacity to produce both high-density and low-density polyethylene. The additions, being constructed at our Adams Terminal petrochemical complex near Houston, will increase capacity by 340 million pounds of resin per year, a 62% increase.

Sales volumes of low-density polyethylene increased in the U. S. A Phillips polyolefin process licensee plant was completed in Yugoslavia.

A 45 million pounds per year expansion of our polypropylene manufacturing facilities at Adams Terminal was completed. Sales volumes of polypropylene resins were strong and continued to grow.

We broadened the U. S. and international markets and expanded our product lines of Ryton polyphenylene sulfide, a tough heat and corrosion-resistant engineering plastic with applications in electrical and electronic components, automotive, small appliance and numerous other markets.

Demand for K-Resin butadiene styrene, a clear shatter-resistant plastic ideal for many packaging and consumer product uses, exceeded supply. A new 120 million pounds per year K-Resin plant was authorized to be constructed at Adams Terminal. The plant is expected to be in operation by late 1978.

#### Fabricated Products

Through several subsidiary companies, Phillips manufactures and markets a variety of fabricated products, many of them based on Phillips plastics. Sales revenues for these products rose 9% in 1977.

The plastic pipe business of Phillips Products Co., Inc. had strong sales of pipe and fittings. All five pipe plants operated at full capacity, with sales to industrial and gas distribution markets especially strong.

Other product lines of Phillips Products Co., Inc. were adversely affected by the lagging economy. However, in the second half of 1977, sales increased in the Garden Scene plastic planterware line and in a new line of plastic shutters for home exteriors.

Sealright Co., Inc. increased sales. The

firm makes paperboard containers and related packaging machinery for consumer and industrial products. A major development was the introduction of the Ultrakan container and fabrication machinery system for lease to several different industries.

The economical new system, which converts flat printed paperboard into cylinders, marks a breakthrough in packaging because it allows manufacturers to make their own containers instead of buying already assembled containers. The Ultrakan container line

#### PRINCIPAL CHEMICAL PLANT EXPANSIONS

| PRODUCT                                             | LOCATION             | PHILLIPS INTEREST | ADDITIONAL GROSS ANNUAL CAPACITY |
|-----------------------------------------------------|----------------------|-------------------|----------------------------------|
| <b>COMPLETED DURING 1977</b>                        |                      |                   |                                  |
| Cyclohexane                                         | Sweeny, Texas        | 100%              | 26,000,000 gallons               |
| Benzene                                             | Antwerp, Belgium     | 50%               | 2,800,000 gallons                |
| Toluene                                             | Antwerp, Belgium     | 50%               | 1,400,000 gallons                |
| Mixed xylenes                                       | Antwerp, Belgium     | 50%               | 700,000 gallons                  |
| Paraxylene†                                         | Guayama, Puerto Rico | 100%              | 470,000,000 pounds               |
| Polypropylene                                       | Pasadena, Texas      | 100%              | 45,000,000 pounds                |
| Coated paper                                        | Chicago, Illinois    | 100%              | 12,600,000 pounds                |
| Butene - 1                                          | Borger, Texas        | 100%              | 48,000,000 pounds                |
| <b>UNDER CONSTRUCTION OR AUTHORIZED AT YEAR-END</b> |                      |                   |                                  |
| Ethylene                                            | Sweeny, Texas        | 100%              | 1,000,000,000 pounds             |
| Ethylene                                            | Antwerp, Belgium     | 50%               | 110,200,000 pounds               |
| Propylene                                           | Antwerp, Belgium     | 50%               | 48,800,000 pounds                |
| Benzene                                             | Guayama, Puerto Rico | 100%              | 12,000,000 gallons               |
| Benzene                                             | Antwerp, Belgium     | 50%               | 4,200,000 gallons                |
| Toluene                                             | Antwerp, Belgium     | 50%               | 2,200,000 gallons                |
| Mixed xylenes                                       | Antwerp, Belgium     | 50%               | 1,000,000 gallons                |
| Tertiary mercaptan                                  | Borger, Texas        | 100%              | 7,000,000 pounds                 |
| Petosulfur compound†                                | Tessenderlo, Belgium | 100%              | 22,100,000 pounds                |
| High-density polyethylene*                          | Pasadena, Texas      | 100%              | 400,000,000 pounds               |
| Butadiene-styrene resin†                            | Pasadena, Texas      | 100%              | 120,000,000 pounds               |
| Polyvinylchloride                                   | Antwerp, Belgium     | 50%               | 55,100,000 pounds                |
| Synthetic rubber                                    | Borger, Texas        | 100%              | 23,100,000 pounds                |
| Carbon black                                        | Borger, Texas        | 100%              | 13,000,000 pounds                |
| Carbon black                                        | Ravenna, Italy       | 50%               | 11,000,000 pounds                |
| Butadiene                                           | Puertollano, Spain   | 45%               | 110,200,000 pounds               |
| Hydrotreated C <sub>4</sub>                         | Antwerp, Belgium     | 50%               | 29,700,000 pounds                |

†New Plant.

\*Plant can also produce low-density polyethylene.



Two expansions under way at year-end at our facilities near Houston, Texas, will raise our capacity to produce Marlex polyethylene plastics.

diversifies Sealright's activities into convenience foods, snacks, powdered detergents, powdered drink bases and a variety of other food and non-food products.

The H. P. Smith Paper Co., a subsidiary making paper coating and plastic films, had lower production and sales, partially because of disruptions caused by a major expansion of its Chicago plant. The project more than doubled the plant's capacity to make release paper. By year-end both production and sales were beginning to increase.

### Rubber Chemicals

Sales revenues increased for the Company's line of rubber chemical products, which include synthetic rubber, carbon black and butadiene.

Expansion of the plastics modification market opened up new opportunities for Solprene elastomers and plastomers, our commercial rubbers for specialized use in footwear and industrial products. Profit margins, however, narrowed for Philprene and Solprene polymers because production costs increased faster than prices.

Worldwide demand for carbon black, a major reinforcing agent for rubber, was higher. United States demand for butadiene, a basic feedstock for rubber manufacture, also was strong. However, rapidly mounting energy and feedstock costs drastically eroded profit margins.

### Fertilizers

Phillips nitrogen fertilizer business had a good year in 1977, despite drought conditions in the Pacific Northwest and Rocky Mountain states which curtailed fertilizer applications.

We sold our Wyoming holdings of trona, a mineral used in making fertilizer, but retained a royalty interest.

Phillips also signed an option which, when exercised, would permit a major diversified mining company to mine, process and sell some 80 million tons of phosphate reserves located on lands owned by Phillips in Florida.

### Fibers

Phillips fibers operations had a 7% increase in sales revenues in 1977 although profit margins were depressed. Our filament yarn was used increasingly in woven area rugs and in home craft markets. Olefin staple sales were strongest in needlepunched carpets for commercial buildings and in needlepunched fabric components for automobile interior pad, trim and trunk liners.

Our position in non-woven fabrics continued to expand as our products found greater use in furniture construction, mattress components, backing for vinyl upholstery and as a road paving reinforcement.





Phillips began expanding its Bartlesville Research Center in 1977 to handle an ever-widening range of projects. The year's activities demonstrate how diverse the Company's research effort has become.

## Petroleum Exploration and Production

Final testing was completed on a system for recording seismic signals without using conventional electric cables. The system's mobility and signal quality provides cheaper, faster geophysical data, especially in difficult terrain. Applied Automation, Inc., a Phillips subsidiary, will build six units in 1978 that will be used by the Company. In addition, plans were initiated to make the development available for industrywide usage.

A method was developed for rapidly evaluating petroleum source rocks at drilling sites. The method uses compact equipment to analyze small samples of drill cuttings to determine the rock's oil generating ability. This information is provided within hours versus days required when cuttings are sent in for laboratory evaluation. The new method will be used in Bolivia during 1978.

Impressive results were obtained from tests of Phillips patented techniques to increase oil output from older reservoirs by using gelled polymers. The polymers are effective in various types of reservoirs where water is being used to enhance oil recovery. Upon injection into the formation, the gelatin-like material more effectively directs the flow of water through the reservoir, flushing more oil from the formation. Recent tests were run on two low-volume wells in Kansas. During the month following treatment, these wells produced 1,675 barrels of oil, compared with the 425 barrels that normally would have been produced. Phillips is using this technique in several older oil fields, including a joint program with the federal government in the North Burbank Field in Oklahoma. Five other companies have licensed the technique from Phillips.

## Oil Refining

Phillips introduced a chemical modifier, Phil-AD CA, which improves the ability of

catalytic cracking units to refine heavy oils containing metals. Such modifiers will become increasingly important for U.S. refineries as heavier oils from Alaska, Venezuela and Saudi Arabia come into greater use. Addition of a small amount of Phil-AD CA to heavy crude before refining reduces operating costs and increases gasoline yields. The process also can be tailored to boost fuel oil output without affecting gasoline yields. The process is in commercial use at the Company's Borger refinery, and is being tested in refineries of several other companies.

A catalytic process for converting low-grade refinery by-products into high-value aromatics was successfully tested on a pilot plant scale. The process uses a low-cost steam reaction to produce the aromatics, which can be added to gasoline to improve octane ratings without the use of lead additives. Similar aromatics are used in plastics, especially polyesters, and in other petrochemicals.

## Alternate Fuels Research

Phillips continued its management of the BI-GAS coal gasification plant in Homer City, Pennsylvania, for the Department of Energy and the American Gas Association. Progress was made in demonstrating the production of a high-Btu substitute natural gas from coal.

Final agreements were completed for Phillips to participate in a jointly funded effort by private industry and the federal government to build and operate a 250-ton per day coal liquefaction plant in Baytown, Texas.

## Patents and Licensing

For the tenth consecutive year, Phillips ranked first among petroleum companies in the number of U.S. patents issued with a total of 272. At year-end, Phillips owned 6,339 active U.S. patents, the largest number of any company in the industry. The Company also was issued 163 patents in 27 other countries. Phillips product and processing technology is now licensed throughout the U.S. and in 28 other countries.

Additional research laboratories and an office and seminar facility were part of an expansion under way at year-end at the Research Center.

New catalyst research equipment designed and built by our research organization and Applied Automation subsidiary went into use at the Bartlesville Research Center.







# corporate citizenship

Phillips corporate citizenship actions during 1977 focused on public education, youth programs, environmental protection and energy conservation. Employees taking active roles in community service received Company recognition for their efforts.

## Education and Youth

The Company's financial support to educational, health, cultural, youth, community and public interest organizations totaled more than \$2 million, an increase of 17% over 1976. Nearly half of this amount went to education. The Company contributed to education in other ways, as well. These included an on-going executive-in-residence program through which Phillips managers speak at seminars, give class lectures and take part in discussions with students and faculty members at colleges and universities.

*American Enterprise*, a five-part film series on the nation's economic heritage released in 1976, continued to circulate widely in junior and senior high schools. The Phillips-funded production reached as many as one million students a month during the school year, making it the most widely viewed film in American education.

Phillips was awarded the U.S. Amateur Athletic Union's national Swimming Award, the foremost honor of its kind. The award was made for the Company's contributions to swimming, including sponsorship of the AAU senior swimming program. Phillips also organized and sponsored swim clinics in 10 U.S. cities. More than 5,000 young people participated, including many underprivileged urban youths. The Company held clinics for swimming coaches in Norway, Portugal and the United Kingdom.

## Community Service

For outstanding volunteer efforts to better their communities, 199 employees received Distinguished Service Awards. Volunteer community work earned 34 young people Youth Performance Awards co-sponsored by Phillips and local newspapers at five locations near Company facilities.

## Energy Conservation

Phillips increased its energy savings in 1977 by the equivalent of 3.9 million barrels

of oil, our largest annual savings since the Company started its energy conservation program in 1972. In those five years the Company's energy consumption has been cut 16%, or enough to provide all the fuel and electricity needed for more than 230,000 average-sized homes for a year.

In 1977, energy savings resulted from an intense conservation effort that included installing improved control systems, using more insulation, replacing older units with new low-energy consuming units, improved combustion control and added heat exchangers to increase heat recovery. Conservation efforts and changes in operations at the Company's butadiene plant in Borger, Texas, released more than 15 million cubic feet per day of natural gas for other uses.

Capital spent or committed to the Company's energy conservation program since 1972 now totals slightly more than \$90 million.

## Environmental Protection

Approximately \$126 million in capital expenditures was committed to environmental protection programs in 1977. Some \$43 million was spent in operating and maintaining environmental facilities.

Continuing environmental studies have revealed no noticeable residual effect of the oil that flowed onto the Norwegian North Sea when a well in the Ekofisk Field flowed out of control in April. Several months later, the Norwegian Institute for Marine Research issued a report in which it stated that there were no obvious effects of the oil film on the number or distribution of fish.

Our Kansas City refinery received the water conservation award of the Kansas Wildlife Federation for a new system that effectively cleanses refinery waste water using one-tenth the land area required by commonly used pond treatment methods.

Phillips introduced a process that recycles waste motor oil into a high-quality, lubricating oil base stock. The process overcomes severe environmental problems associated with the older processes. During the year, Phillips signed a contract with North Carolina to build an oil re-refining plant that will handle about two million gallons of waste oil a year.

Examination of fish taken from the Norwegian North Sea is a part of continuing environmental studies to determine any aftereffects from the oil that flowed from an uncontrolled well in April 1977.

AT FAR RIGHT — Before and after photos taken along the route of the new Seaway pipeline demonstrate the success of environmental restoration efforts. The top photo shows 1976 construction southwest of Houston, Texas. The bottom photo is the same area a year later.

By assisting in the design of special fertilizer applicators, Phillips is contributing to developments in minimum tillage farming methods that save moisture, top soil and fuel.







# phillips people

At the end of 1977, 28,400 people were working for Phillips, a slight increase over 1976. A total of 3,900 people were working overseas, with 83% citizens of host countries.

Phillips continued to give attention to recruiting minorities from college campuses. In addition, the Company continued its search for women with energy-related educational backgrounds. Of the U.S. college graduates hired during the year, 15% were women. At year-end, 20% of Phillips U.S. employees were women. Of the Company's total U.S. work force, 12% were members of minority races.

## Employee Development and Performance

Employee appraisal and counseling programs were modified during the year to improve the assessment of individual job performance and to strengthen communications between employees and supervisors. Surveys were begun to obtain employees' views

on their work environment, job procedures, supervision and career opportunities.

A new benefits communications program called YES (Your Extra Security) was introduced to help employees understand the Company's benefit programs and the value of the complete benefits "package." In 1977 the cost for employee benefits averaged \$6,200 per employee, 14% higher than in 1976.

More than 7,000 employees — a fourth of all Phillips people — participated in formal training and development programs. Employee participation in the Company's Educational Assistance Plan increased by more than 10%. Under this plan the Company reimburses employees for a substantial part of the cost of continued education.

Through the Suggestion Plan, employees submitted some 3,800 awardable ideas for reducing costs and improving Company operations. Record highs were established in both tangible savings and in the amount paid to employees for suggestions.

## Health and Safety

The Company continued a high-priority program to assure that work places are safe from exposure to toxic substances and hazardous conditions. The monitoring of work environments and employees' health received special emphasis during the year with some 3,500 employees participating in special tests at the plant sites. The monitoring was performed by teams including physicians, hygienists and medical technicians. Results have shown no serious exposures or work-related illnesses. Some \$33 million in capital expenditures were committed to employee health and safety measures in 1977.

The Company's lost work days incidence rate in 1977 was 1.04 per 200,000 manhours. The vehicle accident rate was 3.36 per million miles. Both rates were lower than the industry average.

## Code of Ethics

In the past few years many companies voluntarily adopted guidelines which spell out the principles of business ethics and conduct employees are expected to follow while conducting company activities. The Company adopted a "Code of Business Ethics, Conduct and Responsibility" in March 1976.

A new industrial hygiene laboratory in Bartlesville plays a key role in the Companywide program of monitoring work places and employee health.





# government impact statement

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The purpose of this Impact Statement is to alert stockholders to the pervasive influence of regulation on the Company. Regulations now influence everything from product prices to pollution control, from job safety to employment practices, from plant siting to pension funds.

The petroleum and petrochemical industries are among the most tightly regulated, most closely monitored of all businesses. Phillips alone must submit to state and federal agencies in excess of 10,000 separate forms, reports and questionnaires annually at an estimated cost of around \$20 million.

Many Company employees are involved in ensuring compliance with government regulations. For example, it is estimated that the equivalent of 600 full-time employees are involved in various phases of environmental control programs prompted in part by government mandates. One staff group, Human Resources, estimates that approximately 10% of its employees now fill jobs that have been created as a result of the need to respond to government regulations.

Even the most well-intended law can be costly. Just to prepare the text of the Company's pension program in the fashion required by the Employee Retirement Income Security Act took 10 man years of work.

## Atmosphere of Uncertainty

Not only does regulation control and restrict, it creates an atmosphere of uncertainty that confuses and delays operating and planning decisions. It is difficult to conduct daily operations with the assurance that corporate actions comply fully with the law because many regulations are vague and loosely written. Planning is doubly difficult because the regulations are constantly being interpreted, reinterpreted, amended and made retroactive. In 1977, for example, the agency for petroleum price controls issued 41 amendments to regulations, 43 proposed amendments and 27 interpretations of amendments.

New regulations can eliminate the justification for previously made decisions. By the same token, plans laid years ahead must often be altered, realtered and maybe scrapped as newer regulations change the way a business must operate.

The cause of many regulatory problems can be traced to the way in which laws are put into effect. Congress creates and passes the laws and then turns to the agencies to implement them. By the very nature of the process, the agencies are given a great deal of latitude in developing regulations that, in fact, become laws we must follow and may require actions that were never intended in the Congressional legislation.

## More Accountability

A first step toward curbing excessive regulation is for voters to insist that Congress be more accountable for the ways in which its laws are implemented. Congress should more closely monitor the actions of the agencies to protect the American public from regulations that go beyond both the spirit and purpose of the original legislation.

Secondly, the public should demand greater accountability from the agencies themselves. They should be monitored in ways that result in simplified, clarified and reduced regulation. If amendments to regulations become necessary, they should be implemented in ways that do not financially penalize or publicly discredit companies that conducted their business under previous interpretations of the law.

Business itself can help, too, by adopting a more consistent posture toward regulation. Too often companies have opposed regulation in principle, only to favor a specific regulation that would provide a temporary advantage or protection. Such inconsistent actions have confused the public and added momentum to the growth of regulation.

In our large and complex society there is a need for regulation. It is a necessary part of our system of government. But if regulations are to serve the national interest, they should be created with discretion and applied constructively. Regulations should help preserve an economic environment that spurs competition, nurtures innovation, creates new employment and maintains our personal freedoms. We should not substitute government regulation for the consumer's freedom of choice, nor permit rule by bureaucracy to replace government by the people.



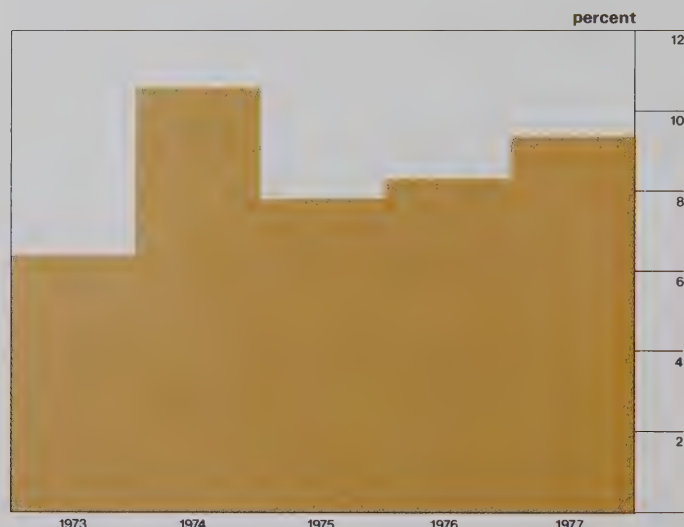
# financial review

Phillips net income in 1977 was \$516,900,000, or \$3.37 a share. This compares with 1976's net income of \$411,700,000, or \$2.69 a share. Stockholders received a total of \$149,500,000 in dividends in 1977, which amounted to 29% of net income.

Petroleum operations in the U. S. accounted for 62% of net income while petroleum activities outside the U. S. accounted for 20% of net income. Our chemical business accounted for 13% of net income. The remaining 5% came from other operations, a

new reporting segment which includes equity in earnings of nonsubsidiary companies, results from coal, uranium and geothermal operations, and other general corporate revenue and expenses. In the five-year summary at right, figures have been revised to reflect this reporting change.

There was no major financing in 1977. The Company's stockholders' equity at the end of 1977 was \$3,086,800,000. This represented a 14% increase over stockholders' equity at the end of 1976.

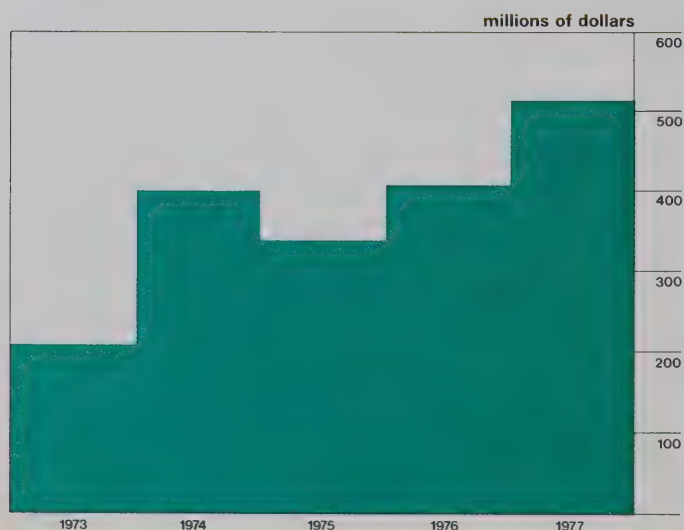


## RETURN ON TOTAL ASSETS\*

Return on assets is the basic yardstick the Company uses to measure its performance. It shows how much the Company earned on the money it has invested in its various businesses. For the Company as a whole, the 1977 return on average total assets was 9.4%. Domestic operations produced a return of 10.5% while the return on foreign operations was 7.8%. Since 1974 Phillips return on assets has been among the highest when compared with the returns of other major oil companies based in the U. S.

At the end of 1977 the Company's total assets were \$5,836,500,000. This represented an increase of 11% over assets at the end of 1976.

\*Based on income before cumulative effect of accounting change in 1974 and 1973.



## NET INCOME

Three factors have had a notable impact on earnings during the five-year period:

- Growing worldwide production of petroleum liquids, which increased 20% between 1972 and 1977.
- Higher prices for crude oil, natural gas and petroleum products, resulting in part from the general rise in world oil prices that began in 1973.
- Foreign currency translation gains and losses caused by the fluctuation in the value of the dollar as compared to other currencies. These gains and losses have varied widely. In 1977 the Company's foreign currency translation gains were immaterial. By comparison, in 1976 the Company had translation losses of \$37,300,000.



## FIVE-YEAR SUMMARY OF REVENUES AND NET INCOME

|                       | 1977           | 1976           | 1975           | 1974           | 1973           |
|-----------------------|----------------|----------------|----------------|----------------|----------------|
| (millions of dollars) |                |                |                |                |                |
| <b>REVENUES</b>       |                |                |                |                |                |
| Petroleum operations  |                |                |                |                |                |
| United States .....   | \$4,485        | \$4,124        | \$3,719        | \$3,287        | \$1,899        |
| Outside U. S. ....    | 1,146          | 930            | 928            | 1,072          | 466            |
| Chemicals .....       | 1,411          | 1,356          | 1,182          | 1,380          | 925            |
| Other* .....          | 128            | 102            | 112            | 210            | 111            |
| Inside sales .....    | (764)          | (675)          | (728)          | (843)          | (327)          |
| Total revenues .....  | <u>\$6,406</u> | <u>\$5,837</u> | <u>\$5,213</u> | <u>\$5,106</u> | <u>\$3,074</u> |
| <b>NET INCOME</b>     |                |                |                |                |                |
| Petroleum operations  |                |                |                |                |                |
| United States .....   | \$ 321         | \$ 254         | \$ 184         | \$ 185         | \$ 109         |
| Outside U. S. ....    | 102            | 44             | 57             | 48             | 43             |
| Chemicals .....       | 68             | 74             | 81             | 152            | 67             |
| Other* .....          | 26             | 40             | 21             | 45             | 11             |
| Net income† .....     | <u>\$ 517</u>  | <u>\$ 412</u>  | <u>\$ 343</u>  | <u>\$ 430</u>  | <u>\$ 230</u>  |

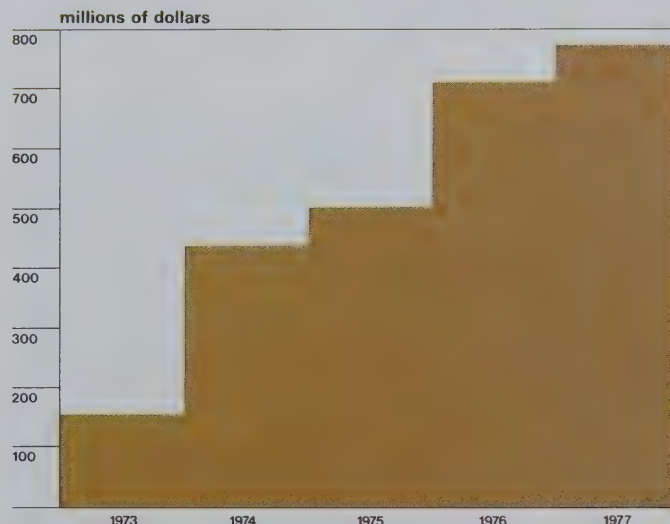
\*Other includes equity in earnings of nonsubsidiary companies, coal, uranium and geothermal and other general corporate revenue and expenses.

†Before cumulative effect of accounting change in 1974 and 1973.

## INCOME AND OPERATING TAXES\*

Income taxes in 1977 were \$669,700,000, an increase of 8% or \$49,900,000 over 1976. Taxes for 1976 were increased \$34,700,000 because of translation of foreign tax liability and foreign currency translation gains. Taxes for 1977 on domestic earnings were \$236,600,000, or 40% of domestic earnings before income taxes. Taxes on foreign earnings were \$433,100,000, or 72% of foreign earnings before income taxes. The 1977 income taxes equaled 56% of the Company's income before income taxes. By comparison, five years ago the Company's income taxes equaled 30% of income before income taxes. Operating taxes, such as property taxes, severance taxes on oil and natural gas production and Social Security taxes, increased 12% to \$104,400,000 in 1977.

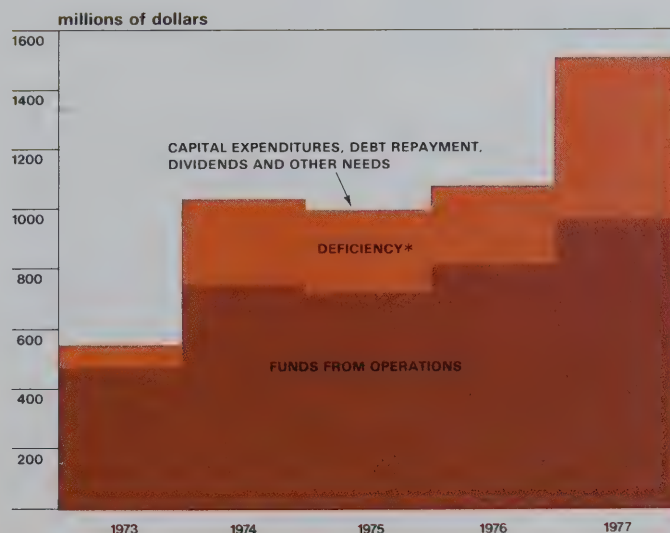
\*Before cumulative effect of accounting change in 1974 and 1973.



## FUNDS AVAILABLE AND EXPENDED

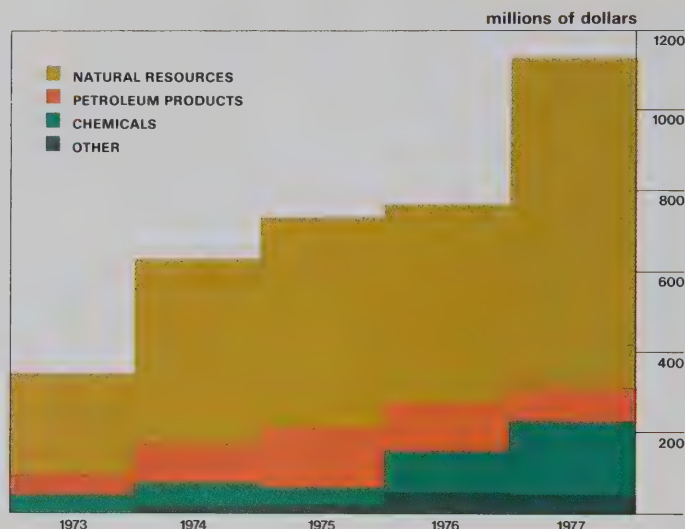
In 1977 funds of \$981,400,000 were generated from operations, a 20% increase over 1976. Despite this increase, funds were insufficient to cover the cost of capital expenditures, dividends, debt repayment and other operating costs needed to support and expand our operations. As in previous years, the Company met its 1977 deficiency, which amounted to \$526,700,000, by borrowings, the sales of assets and reducing working capital.

Long term debt, excluding the amount due within one year, was \$766,700,000 at the end of 1977. This represented a 9% decrease from 1976. New borrowings during 1977 totaled \$75,400,000, while debt repayment totaled \$162,600,000.



\*Made up by borrowings and sales of assets and stock.

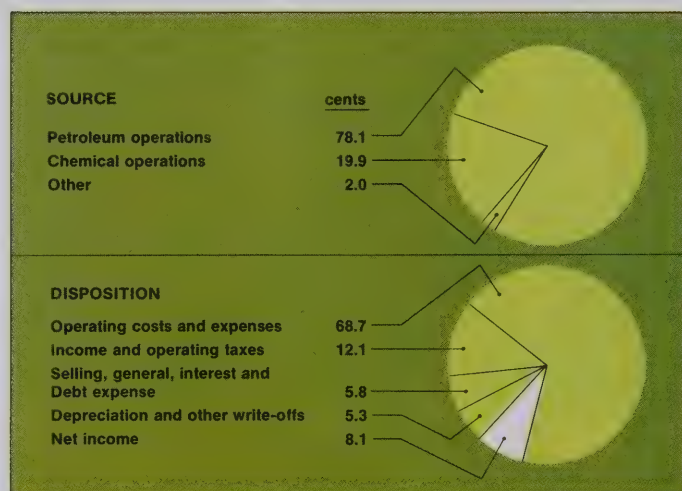




### CAPITAL EXPENDITURES

A total of \$1,127,700,000 was spent by Phillips for capital expenditures during 1977, a 48% increase over 1976 expenditures. Capital expenditures to find and produce crude oil and natural gas in the U.S. totaled \$404,100,000. Following is a breakdown of capital expenditures by operating group and by geographic area.

|                             | 1977                  | 1976            |
|-----------------------------|-----------------------|-----------------|
|                             | (millions of dollars) |                 |
| <b>CAPITAL EXPENDITURES</b> |                       |                 |
| Natural Resources .....     | \$ 817.6              | \$ 493.0        |
| Petroleum Products .....    | 86.5                  | 119.7           |
| Chemicals .....             | 181.0                 | 104.5           |
| Other .....                 | 42.6                  | 47.2            |
| <b>Total .....</b>          | <b>\$1,127.7</b>      | <b>\$ 764.4</b> |
| Domestic .....              | \$ 761.3              | \$ 443.9        |
| Foreign .....               | \$ 366.4              | \$ 320.5        |



### SOURCE AND DISPOSITION OF REVENUE DOLLAR

The source chart reflects the makeup of each revenue dollar. The disposition chart shows that out of each revenue dollar 8.1 cents was net income in 1977, compared to 7.1 cents in 1976. The cost of operating the business (operating costs and expenses and selling, general, interest and debt expenses) consumed 74.5 cents of each revenue dollar in 1977, slightly less than in 1976.

|                                                 | 1977  | 1976  |
|-------------------------------------------------|-------|-------|
| <b>SOURCE</b>                                   |       |       |
| Petroleum operations .....                      | 78.1¢ | 76.2¢ |
| Chemicals .....                                 | 19.9  | 21.1  |
| Other .....                                     | 2.0   | 2.7   |
| <b>DISPOSITION</b>                              |       |       |
| Operating costs and expenses .....              | 68.7¢ | 68.8¢ |
| Income and operating taxes .....                | 12.1  | 12.2  |
| Selling, general, interest and debt expenses .. | 5.8   | 6.7   |
| Depreciation and other write-offs .....         | 5.3   | 5.2   |
| Net income .....                                | 8.1   | 7.1   |

The Company's common stock, its only class of voting securities, is traded principally on the New York Stock Exchange. At the annual stockholders' meeting on April 26, 1977, a resolution was adopted amending the certificate of incorporation to increase the authorized common stock to 200,000,000 shares and splitting the outstanding shares of common stock two-for-one. The stock split was effective for stockholders of record at the close of business May 7, 1977. The table shows the high and low sales prices and the dividends paid for each quarterly period during the past two years for a share of Phillips common stock. The quarterly dividend was increased to 25 cents a share from 22½ cents a share commencing with the dividend paid June 1, 1977.

### STOCK PRICES AND DIVIDENDS

| PRICE PER SHARE*            | QUARTER |        |       |        |
|-----------------------------|---------|--------|-------|--------|
|                             | First   | Second | Third | Fourth |
| 1977 High .....             | \$33⅞   | \$32⅞  | \$33⅞ | \$31⅞  |
| Low .....                   | 27⅞     | 26     | 28⅞   | 25¾    |
| 1976 High .....             | 29⅞     | 32⅞    | 31⅞   | 33⅞    |
| Low .....                   | 24¾     | 26⅞    | 28⅞   | 27⅞    |
| <b>DIVIDENDS PER SHARE*</b> |         |        |       |        |
| 1977 .....                  | \$22½   | \$25   | \$25  | \$25   |
| 1976 .....                  | .20     | .22½   | .22½  | .22½   |

\*Adjusted for two-for-one stock split on May 7, 1977.



**PHILLIPS PETROLEUM COMPANY**  
**CONSOLIDATED BALANCE SHEETS AT DECEMBER 31**

| <b>ASSETS</b>                                                                                                         | <b>1977</b>            | <b>1976*</b>       |
|-----------------------------------------------------------------------------------------------------------------------|------------------------|--------------------|
|                                                                                                                       | (thousands of dollars) |                    |
| <b>Current Assets:</b>                                                                                                |                        |                    |
| Cash, including time deposits — (1977 — \$197,082; 1976 — \$532,537) .....                                            | \$ 292,836             | \$ 648,592         |
| Short-term investments .....                                                                                          | 33,880                 | 53,649             |
| Accounts and notes receivable —<br>(less allowances: 1977 — \$10,738; 1976 — \$9,548) .....                           | 790,548                | 714,852            |
| Inventories:                                                                                                          |                        |                    |
| Crude oil, petroleum products, chemicals and merchandise .....                                                        | 385,440                | 328,114            |
| Materials and supplies .....                                                                                          | 112,453                | 117,598            |
| Total Current Assets .....                                                                                            | 1,615,157              | 1,862,805          |
| <b>Investments and Long-Term Receivables —</b><br>(less allowances: 1977 — \$7,714; 1976 — \$13,550) — Note 2 .....   | 501,072                | 460,111            |
| <b>Properties, Plants and Equipment</b> , less accumulated depreciation,<br>depletion and amortization — Note 3 ..... | 3,560,847              | 2,822,074          |
| <b>Prepaid and Deferred Charges</b> .....                                                                             | 159,427                | 102,590            |
|                                                                                                                       | <u>\$5,836,503</u>     | <u>\$5,247,580</u> |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                                           |                        |                    |
| <b>Current Liabilities:</b>                                                                                           |                        |                    |
| Accounts and notes payable .....                                                                                      | \$ 673,869             | \$ 559,413         |
| Long-term debt and obligations due within one year — Notes 4, 5, 6 and 7 .....                                        | 80,133                 | 70,444             |
| Accrued taxes .....                                                                                                   | 413,466                | 428,770            |
| Other accruals .....                                                                                                  | 54,589                 | 49,460             |
| Total Current Liabilities .....                                                                                       | 1,222,057              | 1,108,087          |
| <b>Long-Term Debt</b> — Note 5 .....                                                                                  | 766,658                | 839,017            |
| <b>Other Long-Term Liabilities</b> — Note 6 .....                                                                     | 49,784                 | —                  |
| <b>Accrued Contingent Liabilities</b> — Note 7 .....                                                                  | 94,120                 | 60,305             |
| <b>Obligations Under Capital Leases</b> — Notes 4 and 7 .....                                                         | 156,303                | 175,793            |
| <b>Deferred Credits:</b>                                                                                              |                        |                    |
| Income taxes — Note 8 .....                                                                                           | 374,300                | 277,036            |
| Other .....                                                                                                           | 76,157                 | 74,660             |
| Total Deferred Credits .....                                                                                          | 450,457                | 351,696            |
| <b>Minority Interest in Consolidated Subsidiaries</b> .....                                                           | 10,325                 | 10,511             |
| <b>Stockholders' Equity</b> — Note 9:                                                                                 |                        |                    |
| Common stock, \$1.25 par value:                                                                                       |                        |                    |
| Shares authorized — 200,000,000                                                                                       |                        |                    |
| Shares issued — (1977 — 153,717,809; 1976 — 153,134,554) .....                                                        | 192,147                | 191,418            |
| Capital in excess of par value of common stock .....                                                                  | 488,773                | 472,270            |
| Earnings employed in the business .....                                                                               | 2,406,197              | 2,038,812          |
|                                                                                                                       | 3,087,117              | 2,702,500          |
| Less treasury stock, at cost —<br>(1977 — 23,396 shares; 1976 — 24,192 shares) .....                                  | 318                    | 329                |
| Total Stockholders' Equity .....                                                                                      | 3,086,799              | 2,702,171          |
|                                                                                                                       | <u>\$5,836,503</u>     | <u>\$5,247,580</u> |

\*Restated — See Note 4.



PHILLIPS PETROLEUM COMPANY

CONSOLIDATED STATEMENTS OF INCOME AND EARNINGS EMPLOYED IN THE BUSINESS

|                                                                                     | 1977                   | 1976               |
|-------------------------------------------------------------------------------------|------------------------|--------------------|
|                                                                                     | (thousands of dollars) |                    |
| <b>Revenues:</b>                                                                    |                        |                    |
| Sales and other operating revenues .....                                            | \$6,284,185            | \$5,697,516        |
| Equity in earnings of nonsubsidiary companies .....                                 | 40,016                 | 44,036             |
| Other revenues .....                                                                | 81,622                 | 95,389             |
|                                                                                     | <u>6,405,823</u>       | <u>5,836,941</u>   |
| <b>Costs and Expenses:</b>                                                          |                        |                    |
| Costs and operating expenses .....                                                  | 4,404,300              | 4,017,912          |
| Selling, general and administrative expenses .....                                  | 291,802                | 322,268            |
| Depreciation, depletion, amortization and retirements .....                         | 336,702                | 303,990            |
| Taxes other than income taxes* — Note 8 .....                                       | 104,433                | 93,007             |
| Interest and expense on indebtedness .....                                          | 81,944                 | 68,291             |
| Provision for income taxes — Note 8 .....                                           | 669,740                | 619,817            |
|                                                                                     | <u>5,888,921</u>       | <u>5,425,285</u>   |
| <b>Net Income</b> .....                                                             | <u>516,902</u>         | <u>411,656</u>     |
| <b>Earnings Employed in the Business at Beginning of Year:</b>                      |                        |                    |
| As previously reported .....                                                        |                        | 1,779,002          |
| Adjustment — Note 4 .....                                                           |                        | (18,170)           |
| As restated .....                                                                   | <u>2,038,812</u>       | <u>1,760,832</u>   |
|                                                                                     | 2,555,714              | 2,172,488          |
| <b>Dividends Paid</b> (1977 — \$.975 a share; 1976 — \$.875 a share) — Note 9 ..... | <u>149,517</u>         | <u>133,676</u>     |
| <b>Earnings Employed in the Business at End of Year</b> .....                       | <u>\$2,406,197</u>     | <u>\$2,038,812</u> |
| <b>Net Income Per Share of Common Stock</b> — Note 9 .....                          | \$ 3.37                | \$ 2.69            |

\*In addition, taxes collected on the sale of petroleum products and paid to taxing agencies were \$183,000,000 in 1977 and \$208,000,000 in 1976.



**PHILLIPS PETROLEUM COMPANY**

**CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION**

|                                                             | <b>1977</b>            | <b>1976*</b>      |
|-------------------------------------------------------------|------------------------|-------------------|
|                                                             | (thousands of dollars) |                   |
| <b>Funds Provided from Operations Consisted of —</b>        |                        |                   |
| Net income .....                                            | \$ 516,902             | \$ 411,656        |
| Non-cash items included in earnings, as follows —           |                        |                   |
| Depreciation, depletion, amortization and retirements ..... | 336,702                | 303,990           |
| Other (primarily deferred taxes) .....                      | 127,841                | 99,029            |
|                                                             | <u>981,445</u>         | <u>814,675</u>    |
| <b>While Funds Were Expended for —</b>                      |                        |                   |
| Properties, plants and equipment .....                      | 1,091,438              | 727,774           |
| Investments .....                                           | 36,273                 | 36,643            |
| Reduction of long-term borrowings .....                     | 162,614                | 149,414           |
| Dividends to Company stockholders .....                     | 149,517                | 133,676           |
| Other .....                                                 | 68,336                 | 37,005            |
|                                                             | <u>1,508,178</u>       | <u>1,084,512</u>  |
| <b>Which Left a Deficiency of</b> .....                     | <u>\$ 526,733</u>      | <u>\$ 269,837</u> |
| <b>This Deficiency Was Financed by —</b>                    |                        |                   |
| Long-term borrowings .....                                  | \$ 75,427              | \$ 66,744         |
| Property sales and retirements .....                        | 53,412                 | 199,517           |
| Sales of investments .....                                  | 1,215                  | 23,975            |
| Proceeds from sale of Company stock .....                   | 17,243                 | 18,062            |
| Long-term receivables .....                                 | 17,818                 | —                 |
| Withdrawals from (additions to) working capital .....       | 361,618                | (38,461)          |
|                                                             | <u>\$ 526,733</u>      | <u>\$ 269,837</u> |
| <b>Changes in Components of Working Capital:</b>            |                        |                   |
| Cash and short-term investments .....                       | \$ (375,525)           | \$ 179,619        |
| Accounts and notes receivable .....                         | 75,696                 | 81,216            |
| Inventories .....                                           | 52,181                 | (23,888)          |
| Total Current Assets .....                                  | <u>(247,648)</u>       | <u>236,947</u>    |
| Accounts and notes payable .....                            | 114,456                | 33,096            |
| Long-term debt and obligations due within one year .....    | 9,689                  | (2,621)           |
| Accrued taxes and other accruals .....                      | (10,175)               | 168,011           |
| Total Current Liabilities .....                             | <u>113,970</u>         | <u>198,486</u>    |
| (Withdrawals from) additions to working capital .....       | <u>\$ (361,618)</u>    | <u>\$ 38,461</u>  |

\*Restated — See Note 4.

**REPORT OF CERTIFIED PUBLIC ACCOUNTANTS**

The Board of Directors and Stockholders  
Phillips Petroleum Company

We have examined the accompanying consolidated balance sheets of Phillips Petroleum Company at December 31, 1977 and 1976, and the related consolidated statements of income and earnings employed in the business and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Phillips Petroleum Company at December 31, 1977 and 1976, and the consolidated results of operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period after restatement for the change, with which we concur, in the method of accounting for leases described in Note 4.

Tulsa, Oklahoma  
February 17, 1978

ARTHUR YOUNG & COMPANY



## NOTES TO FINANCIAL STATEMENTS

### NOTE 1 — ACCOUNTING POLICIES

**Consolidation Principles and Investments** — The consolidated statements include the accounts of companies owned more than 50%. Investments in companies owned 20% to 50%, inclusively, and in corporate joint ventures are accounted for using the equity method. Investments in other companies are carried at cost except that equity securities for which quoted prices are available are carried at the lower of aggregate cost or market, computed separately for current and noncurrent securities.

**Inventories** — Crude oil, petroleum products and chemicals are priced at cost, which is lower than market in the aggregate, mainly on the last-in, first-out basis. Materials and supplies are priced at average or replacement cost, with allowance for condition of used material.

**Depreciation, Depletion and Amortization** — Depreciation and amortization of properties, plants and equipment, including capital leases, are determined by the group straight-line method, individual unit straight-line method and the unit of production method, applying the method considered most appropriate for each type of property. Leasehold costs of producing properties and the intangible development cost of productive wells are depleted on the unit of production method based on estimated recoverable oil and gas reserves.

**Exploratory Costs** — Undeveloped oil and gas leaseholds are capitalized and that portion of the costs applicable to properties which it is estimated will be surrendered is amortized over the estimated holding period. Dry holes and undeveloped lease rentals are expensed. Geological and geophysical costs resulting in the acquisition or retention of leases are capitalized with the remainder being expensed.

**Property Dispositions** — When complete units of depreciable property are retired or are sold for continued use, accumulated depreciation is reduced by the applicable amounts and any profit or loss is credited or charged to income. When less than complete units of depreciable property are retired or disposed of, the difference between asset cost and salvage value is charged or credited to accumulated depreciation.

**Leases** — See Note 4.

**Maintenance and Repairs** — Maintenance and repairs are charged against income. Major renewals and replacements are charged to property accounts and the assets replaced are retired.

**Income Taxes** — Deferred taxes are provided for all significant timing differences in the recognition of revenue and expenses for tax and financial purposes. The allow-

able investment tax credit is applied as a reduction of income taxes.

**Accounting by Oil and Gas Producing Companies** — Financial Accounting Standards Board Statement No. 19 on "Financial Accounting and Reporting by Oil and Gas Producing Companies", which is effective for fiscal years beginning after December 15, 1978, requires petroleum companies to use a prescribed form of "successful efforts" accounting. Phillips practices "successful efforts" accounting and it is believed reporting under the prescribed method would not have a material effect on 1977 or 1976 net income, nor would the cumulative effect of adopting such changes at January 1, 1976 have a material effect on earnings employed in the business.

### NOTE 2 — INVESTMENTS

Investments at December 31, 1977, include 10,326,321 shares of common stock of Pacific Petroleum Ltd. ("Pacific"), representing 48.29% of the total shares outstanding. These securities had a carrying value of \$231,812,000 and a quoted market value of \$414,302,000 at December 31, 1977, which does not purport to be realizable value. At the same date, net assets of Pacific in Canadian dollars amounted to \$470,374,000 which consists of current assets \$174,707,000, net property, plant and equipment \$610,435,000, investments \$113,385,000, current liabilities \$88,844,000, long-term debt \$193,625,000 and provisions for future income tax \$145,684,000. Earnings of Pacific for 1977 in Canadian dollars were \$85,511,000.

### NOTE 3 — PROPERTIES, PLANTS AND EQUIPMENT

The Company's investment in properties, plants and equipment (at cost, except for capitalized leases) is summarized as follows:

|                                                                    | December 31            |                    |
|--------------------------------------------------------------------|------------------------|--------------------|
|                                                                    | 1977                   | 1976               |
|                                                                    | (thousands of dollars) |                    |
| Natural Resources .....                                            | \$3,751,290            | \$3,066,375        |
| Petroleum Products .....                                           | 1,241,582              | 1,231,253          |
| Chemicals .....                                                    | 949,357                | 799,997            |
| Other .....                                                        | 160,440                | 142,380            |
|                                                                    | 6,102,669              | 5,240,005          |
| Less accumulated depreciation,<br>depletion and amortization ..... | 2,541,822              | 2,417,931          |
|                                                                    | <u>\$3,560,847</u>     | <u>\$2,822,074</u> |

The above schedule, which has been restated for 1976, includes capitalized leases (primarily fair value at inception of lease) and related amortization of \$260,730,000 and \$123,379,000 for 1977 and \$272,457,000 and \$125,682,000 for 1976.



#### NOTE 4 — CHANGE IN ACCOUNTING FOR LEASES

In 1977 the Company changed its method of accounting for non-mineral leases in accordance with Financial Accounting Standards Board Statement No. 13 to retroactively apply the provisions of the Statement to January 1, 1973, the earliest practical date for recovering sufficient lease data. The 1973 financial statements have been restated to reflect this accounting change and, accordingly, net income for that year has been reduced \$18,170,000 (\$.12 per share) for the cumulative effect of the change to January 1, 1973. This change had no material effect on earnings for 1977 or any of the previous four years.

#### NOTE 5 — LONG-TERM DEBT

Long-term debt due after one year at December 31, 1977, consists of the following, in thousands of dollars:

|                                                                   |                  |
|-------------------------------------------------------------------|------------------|
| 8⅞ % Debentures Due 2000 .....                                    | \$250,000        |
| 7⅞ % Debentures Due 2001 .....                                    | 199,315          |
| 6% Guaranteed Sinking Fund Debentures Due 1981 ..                 | 5,936            |
| 5% % Marine Terminal Revenue Bonds,<br>Series 1977 due 2007 ..... | 20,000           |
| Notes payable to banks, insurance companies<br>and others:        |                  |
| At 7% - 8¼ %, due 1979-1984 .....                                 | 74,998           |
| At 5½ % - 6½ %, due 1979-1991 .....                               | 183,864          |
| At 4% - 5%, due 1979-1988 .....                                   | 7,741            |
| Purchase obligations .....                                        | 24,804           |
|                                                                   | <u>\$766,658</u> |

Maturities of long-term debt for the next five years are: 1978 — \$53,530,000 (included in current liabilities); 1979 — \$58,954,000; 1980 — \$56,729,000; 1981 — \$50,170,000; 1982 — \$31,884,000.

#### NOTE 6 — OTHER LONG-TERM LIABILITIES

Other long-term liabilities consist of accrued liabilities for dismantling and restoring certain exploration and production facilities, \$20,069,000 of which was classified as accumulated depreciation, depletion and amortization at December 31, 1976, and miscellaneous liabilities.

#### NOTE 7 — COMMITMENTS AND CONTINGENT LIABILITIES

The Company leases bulk and service stations, railroad cars, tankers, oil and gas gathering systems, a natural gas liquefaction plant, chemical plants and other facilities and equipment. These leases involve both capital and operating leases, the major portion of which covers bulk and service stations and a natural gas liquefaction plant and related gathering system.

Most station leases have renewal options for varying periods at monthly rentals which equal or exceed the rentals paid during the primary lease term. Some station leases include purchase options exercisable after a specified number of years. Contingent rentals, where applicable, are generally based on the volume of motor fuel sold through the station. Many of the stations are subleased for the same amount of rentals and for the same term specified in the primary lease.

Capital lease data, in thousands of dollars, at December 31, 1977, follow:

Minimum lease payments:

|                                              |                  |
|----------------------------------------------|------------------|
| 1978 .....                                   | \$ 39,126        |
| 1979 .....                                   | 35,474           |
| 1980 .....                                   | 31,950           |
| 1981 .....                                   | 29,086           |
| 1982 .....                                   | 24,816           |
| Remaining years .....                        | 85,752           |
| Total* .....                                 | <u>246,204</u>   |
| Less estimated executory costs .....         | 2,857            |
| Net payments .....                           | <u>243,347</u>   |
| Less imputed interest .....                  | 61,575           |
| Present value .....                          | <u>181,772</u>   |
| Amount included in current liabilities ..... | 25,469           |
| Obligations under capital leases .....       | <u>\$156,303</u> |

\*Minimum payments have not been reduced by minimum sublease rentals of \$32,029 due under noncancelable subleases.

Minimum rental payments under operating leases having initial or remaining noncancelable lease terms in excess of one year as of December 31, 1977, in thousands of dollars, follow:

|                       |                  |
|-----------------------|------------------|
| 1978 .....            | \$ 19,758        |
| 1979 .....            | 14,134           |
| 1980 .....            | 11,218           |
| 1981 .....            | 10,306           |
| 1982 .....            | 8,464            |
| Remaining years ..... | 63,333           |
| Total* .....          | <u>\$127,213</u> |

\*Minimum payments have not been reduced by minimum sublease rentals of \$16,322 due under noncancelable subleases.

Rentals for all operating leases for the years ended December 31, in thousands of dollars, follow:

|                             | 1977             | 1976             |
|-----------------------------|------------------|------------------|
| Minimum rentals .....       | \$ 43,159        | \$ 41,525        |
| Contingent rentals .....    | 464              | 989              |
| Total rentals .....         | <u>43,623</u>    | <u>42,514</u>    |
| Less sublease rentals ..... | 17,990           | 20,867           |
| Net rentals .....           | <u>\$ 25,633</u> | <u>\$ 21,647</u> |



At December 31, 1977, the Company was contingently liable for \$189,816,000 of obligations principally of companies in which the Company has a minority interest. In addition, the Company has contingent liabilities with respect to claims and commitments arising from agreements with pipeline companies in which it or its subsidiaries hold stock interests whereby it may be required to provide such companies with additional funds through advances against future transportation charges.

A number of legal proceedings are pending in various courts or agencies in which the Company or a subsidiary appears as plaintiff or defendant, including civil class action suits filed by the states of Florida, Connecticut, Kansas, California, Arizona, Oregon and Washington (consolidated for pretrial procedures, including discovery and class certification, in the U.S. District Court at Los Angeles, California) against numerous petroleum companies, alleging extensive violations of the antitrust laws relating to the production and refining of crude oil, and the transportation and marketing of crude oil and refined products.

While it is impossible to estimate the ultimate liability in respect to contingent liabilities, the Company is of the opinion that the aggregate amount of any such liabilities for which provision has not been made will not have a materially adverse effect on its financial position.

#### NOTE 8 — TAXES

|                                                                                            | 1977                   | 1976             |
|--------------------------------------------------------------------------------------------|------------------------|------------------|
|                                                                                            | (thousands of dollars) |                  |
| <b>Operating taxes</b>                                                                     |                        |                  |
| Property .....                                                                             | \$ 34,598              | \$ 31,503        |
| Gross production .....                                                                     | 35,052                 | 29,304           |
| Social security .....                                                                      | 23,330                 | 21,663           |
| Other .....                                                                                | 11,453                 | 10,537           |
|                                                                                            | <u>104,433</u>         | <u>93,007</u>    |
| <b>Income taxes</b>                                                                        |                        |                  |
| Federal                                                                                    |                        |                  |
| Current .....                                                                              | 208,926                | 164,199          |
| Deferred .....                                                                             | 38,384                 | 27,705           |
| Foreign                                                                                    |                        |                  |
| Current .....                                                                              | 347,485                | 347,356          |
| Deferred .....                                                                             | 58,880                 | 63,974           |
| State .....                                                                                | 16,065                 | 16,583           |
|                                                                                            | <u>669,740</u>         | <u>619,817</u>   |
| Total taxes charged to income .....                                                        | 774,173                | 712,824          |
| Excise taxes collected on the sale of petroleum products and paid to taxing agencies ..... | 183,000                | 208,000          |
|                                                                                            | <u>\$957,173</u>       | <u>\$920,824</u> |

The amount of investment tax credit applied as a reduction of the provision for federal income taxes was \$49,951,000 in 1977 and \$41,804,000 in 1976 (see Note 12).

Deferred taxes on timing differences recognized in 1977 and 1976 were:

|                                                                                 | 1977                   | 1976             |
|---------------------------------------------------------------------------------|------------------------|------------------|
|                                                                                 | (thousands of dollars) |                  |
| Excess of tax over book depreciation ..                                         | \$ 60,296              | \$ 25,876        |
| Excess of intangible drilling and certain other costs over book provisions .... | 32,301                 | 40,362           |
| Unrealized currency translation net gain on debt .....                          | 8,515                  | 19,516           |
| Other .....                                                                     | (3,848)                | 5,925            |
|                                                                                 | <u>\$ 97,264</u>       | <u>\$ 91,679</u> |

The Company's effective income tax rate differs from the federal statutory income tax rate for the following reasons:

|                                                                          | Percentage of pretax income |              |
|--------------------------------------------------------------------------|-----------------------------|--------------|
|                                                                          | 1977                        | 1976         |
| Federal statutory income tax rate .....                                  | 48.0%                       | 48.0%        |
| Excess of foreign tax over the allowed foreign tax credit .....          | 13.6                        | 16.1         |
| Investment tax credit .....                                              | (4.2)                       | (4.0)        |
| Increase in foreign taxes due to currency translation fluctuations ..... | —                           | 3.0          |
| Other .....                                                              | (1.0)                       | (3.0)        |
| Effective tax rate .....                                                 | <u>56.4%</u>                | <u>60.1%</u> |

At December 31, 1977, income taxes have not been accrued on \$87,958,000 of the Company's equity in undistributed earnings of certain subsidiaries and corporate joint ventures because of reinvestment plans for such funds.

#### NOTE 9 — STOCKHOLDERS' EQUITY

The authorized common stock of the Company was changed from 100,000,000 shares of \$2.50 par value each to 200,000,000 shares of \$1.25 par value each and a two-for-one stock split was effected as of the close of business May 7, 1977. All data relative to common stock and per share amounts in the financial statements and related notes have been adjusted accordingly.

During 1977 common stock issued increased 583,255 shares and capital in excess of par value of common stock increased \$16,503,000. This resulted from the sale of 454,600 shares to the Thrift Plan Trustee, the contribution of 128,655 shares to the Trust Fund established



under the Employee Stock Ownership Plan and the distribution of 796 treasury shares under the Incentive Compensation Plan.

#### NOTE 10 — RETIREMENT INCOME PLANS

The parent company and its subsidiaries have retirement plans covering substantially all of their employees. These plans are being funded based on pension costs accrued as determined by actuarial studies. Charges to income for such plans were \$46,135,000 for 1977 and \$38,214,000 for 1976.

Effective January 1, 1977, the parent company's plan (which accounts for approximately 80% of total participants) was split into two programs, one for bargaining unit members who were parties to the Oil, Chemical and Atomic Workers International Union settlement and one for all other employees, both programs being operated as a single plan for funding and administrative purposes. The programs were subsequently amended to liberalize minimum benefits and, with respect to the latter program, to eliminate the one-year service requirement for eligibility and to give participants an opportunity to make up previously missed credited service. Such amendments are reflected by increases in both unfunded actuarial liability and in pension costs. At January 1, 1977, the unfunded actuarial liability amounted to approximately \$279,000,000, which is being amortized at the rate of 10% per year. At December 31, 1977, the present value of vested benefits under the parent company's plan exceeded plan assets by \$21,000,000.

#### NOTE 11 — INCENTIVE COMPENSATION PLAN

Under the Company's Incentive Compensation Plan, adopted in 1965, a provision of \$4,857,000, which was substantially less than the maximum permitted under the plan, was made against 1977 earnings in anticipation of awards to key employees in 1978. A provision of \$5,858,000 was charged against 1976 earnings.

#### NOTE 12 — EMPLOYEE STOCK OWNERSHIP PLAN

In 1976, the Company adopted an Employee Stock Ownership Plan, effective January 1, 1975, for eligible employees of Phillips Petroleum Company and certain subsidiaries. The plan is funded solely by an additional one percent investment tax credit available for such purpose under the provisions of the Tax Reduction Act of 1975. The Act permits an additional one percent tax credit if an amount equal to the credit is used to provide company stock for employees; therefore the plan had no effect on income. Under present provisions in the tax law the additional tax credit may be continued through 1980.

#### NOTE 13 — RESEARCH AND DEVELOPMENT EXPENSES

Research and development costs charged to expense were \$48,461,000 in 1977 and \$40,215,000 in 1976.

#### NOTE 14 — FOREIGN CURRENCY TRANSLATION

Translation gains were immaterial in 1977 while translation losses reduced earnings \$37,338,000 in 1976.

#### NOTE 15 — SEGMENT AND GEOGRAPHIC INFORMATION

The Company is involved primarily in Petroleum and Chemicals operations. Petroleum operations are fully integrated and involve the discovery, production, transportation and refining of crude oil and natural gas together with the subsequent transportation and marketing of products derived therefrom. It also provides feedstock for the production of petrochemicals. Chemicals operations involve the manufacture and marketing of a broad range of petroleum-based chemical products including synthetic rubber, carbon black, plastics, fertilizers, synthetic fibers and other products. The Other segment includes mainly coal, uranium and geothermal.

Operating information for 1977 and assets at December 31, 1977, are presented, in millions of dollars, as follows:

|                       | Sales and other operating revenues |                   |         | Operating profit | Identifiable assets |
|-----------------------|------------------------------------|-------------------|---------|------------------|---------------------|
|                       | To outside customers               | To other segments | Total   |                  |                     |
| INDUSTRY SEGMENTS     |                                    |                   |         |                  |                     |
| Petroleum Operations: |                                    |                   |         |                  |                     |
| United States .....   | \$4,164                            | \$ 321            | \$4,485 | \$ 625           | \$2,485             |
| Outside U. S. ....    | 842                                | 304               | 1,146   | 494              | 1,373               |
| Chemicals .....       | 1,274                              | 137               | 1,411   | 120              | 890                 |
| Other .....           | 4                                  | 2                 | 6       | (32)             | 180                 |
| Eliminations          |                                    |                   |         |                  |                     |
| (intersegment) .....  | —                                  | (764)             | (764)   | 4                | (21)                |
| Total .....           | \$6,284                            | \$ —              | \$6,284 | \$1,211          | \$4,907             |

|                             | Sales and other operating revenues |                           |         |                  |                     |
|-----------------------------|------------------------------------|---------------------------|---------|------------------|---------------------|
|                             | To outside customers               | To other geographic areas | Total   | Operating profit | Identifiable assets |
| GEOGRAPHIC AREAS            |                                    |                           |         |                  |                     |
| United States . . . . .     | \$5,283                            | \$ 42                     | \$5,325 | \$ 706           | \$3,492             |
| Europe-Africa . . . . .     | 888                                | 288                       | 1,176   | 534              | 1,223               |
| Other . . . . .             | 113                                | 20                        | 133     | (32)             | 210                 |
| Eliminations                |                                    |                           |         |                  |                     |
| (intergeographic) . . . . . | —                                  | (350)                     | (350)   | 3                | (18)                |
| Total . . . . .             | \$6,284                            | \$ —                      | \$6,284 | \$1,211          | \$4,907             |



# RECONCILIATION TO FINANCIAL STATEMENTS

|                                                             | Revenues       | Operating profit | Identifiable assets |
|-------------------------------------------------------------|----------------|------------------|---------------------|
| Sales and other operating revenues .....                    | \$6,284        |                  |                     |
| Operating profit .....                                      |                | \$1,211          |                     |
| Identifiable assets .....                                   |                |                  | \$4,907             |
| Equity in earnings and assets of                            |                |                  |                     |
| nonsubsidiary companies .....                               | 40             | 40               | 367                 |
| Other revenues .....                                        | 82             | 87               |                     |
| General corporate expenses, interest and income taxes ..... |                | (821)            |                     |
| Corporate assets .....                                      |                |                  | 563                 |
| Total revenues .....                                        | <u>\$6,406</u> |                  |                     |
| Net income .....                                            |                | <u>\$ 517</u>    |                     |
| Total assets .....                                          |                |                  | <u>\$5,837</u>      |
| Return on average total assets .....                        |                | <u>9.4%</u>      |                     |

Sales and other operating revenues by segments and by geographic areas include both sales to customers outside the consolidated companies and sales within the consolidated companies which are generally at market value. In computing operating profit, none of the following items has been added or deducted: equity in earnings of non-subsidiary companies, general corporate revenues and expenses, interest and income taxes. The Company's share of assets and earnings of nonsubsidiary companies which are vertically integrated with operations of the Company are not material. Depreciation, depletion, amortization and retirements for Petroleum Operations U. S. and Outside U. S., Chemicals and Other was \$175,000,000, \$108,000,000, \$33,000,000 and \$4,000,000, respectively; capital expenditures for properties, plants and equipment were \$520,000,000, \$331,000,000, \$181,000,000 and \$59,000,000, respectively.

Identifiable assets by segments and geographic areas are those assets that are used in the Company's operations in each segment or area. Corporate assets are principally cash and short-term investments.

To reconcile segment information with consolidated amounts, the following eliminations have been made: \$764,000,000 of sales to other segments, \$4,000,000 for the fluctuation in intersegment profits in inventory during the period, and \$21,000,000 intersegment profits in inventory included in identifiable assets at December 31, 1977. To reconcile geographic information with consolidated amounts, the following eliminations have been made: \$350,000,000 of sales to other geographic areas, \$3,000,000 for the fluctuation in intergeographic area profits in inventory during the period, and \$18,000,000 intergeographic area profits in inventory included in identifiable assets at December 31, 1977.

# NOTE 16 — QUARTERLY FINANCIAL DATA (UNAUDITED)

|                       | Sales and other operating revenues             | Income before income taxes | Net income   | Net income per share of common stock (A) |
|-----------------------|------------------------------------------------|----------------------------|--------------|------------------------------------------|
|                       | (millions of dollars except per share figures) |                            |              |                                          |
| 1977:                 |                                                |                            |              |                                          |
| First quarter .....   | \$1,558                                        | \$ 299                     | \$122        | \$ .79                                   |
| Second quarter .....  | 1,551                                          | 280                        | 125          | .82                                      |
| Third quarter .....   | 1,517                                          | 243                        | 123          | .80                                      |
| Fourth quarter .....  | 1,658                                          | 365                        | 147          | .96                                      |
| Total .....           | <u>\$6,284</u>                                 | <u>\$1,187</u>             | <u>\$517</u> | <u>\$3.37</u>                            |
| 1976:                 |                                                |                            |              |                                          |
| First quarter .....   | \$1,380                                        | \$ 244                     | \$ 98        | \$ .64                                   |
| Second quarter (B) .. | 1,387                                          | 215 (C)                    | 90           | .59                                      |
| Third quarter .....   | 1,396                                          | 270                        | 98           | .64                                      |
| Fourth quarter .....  | 1,535                                          | 302 (D)                    | 126          | .82                                      |
| Total .....           | <u>\$5,698</u>                                 | <u>\$1,031</u>             | <u>\$412</u> | <u>\$2.69</u>                            |

(A) Adjusted for two-for-one stock split on May 7, 1977.

(B) In connection with an order of divestiture issued by a United States District Court for the Central District of California, Phillips entered into an agreement with Tosco Corporation ("Tosco"), under the terms of which Tosco purchased certain assets located in California, Washington, Oregon and western Nevada, which Phillips acquired from Tidewater Oil Company in 1966, terminating practically all of Phillips gasoline marketing in the area. The sale, approved by the court as satisfaction of its order of divestiture, was closed April 1, 1976.

(C) Includes a charge of \$8,039,000 due to cancellation of a tanker construction contract.

(D) Includes a charge of \$21,000,000 for a writedown of the carrying value of certain fixed assets in the Company's fibers operations, which was substantially offset by profits realized from inventory liquidations.

# NOTE 17 — ESTIMATED REPLACEMENT COSTS (UNAUDITED)

The Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission (a copy of which is available upon request) contains required information with respect to the estimated replacement cost of inventories and productive capacities at December 31, 1977 and 1976, and the related estimated effect of such costs on costs and operating expenses and depreciation, depletion and amortization.



## MANAGEMENT'S DISCUSSION OF EARNINGS FLUCTUATIONS

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### Year Ended December 31, 1977

The Company's earnings for 1977 increased \$105,246,000 or 26% over 1976. Of total 1977 earnings, domestic operations accounted for 68% or \$351,131,000, an increase of \$58,166,000 or 20%. Foreign earnings accounted for \$165,771,000 of total earnings, an increase of \$47,080,000 or 40%. Earnings improved partly because of improved prices realized in the Company's worldwide petroleum operations and because of increased production of crude oil and natural gas liquids. In 1977, foreign currency translation gains were immaterial compared to losses of \$37,338,000 in 1976.

Total revenues increased \$568,882,000 or 10%. This was due to an improvement of \$586,669,000 in sales and other operating revenues, primarily the result of higher prices. Other revenues decreased \$13,767,000 mainly due to the sale in 1976 of the assets of certain western operations.

Total costs and expenses increased \$463,636,000 or 9%. Of the total increase, \$214,401,000 is due to higher production and operating expenses and \$171,987,000 is primarily due to increased purchases of crude oil and natural gas. Charges for depreciation, depletion, amortization and retirements increased \$32,712,000. This increase is primarily depreciation of \$32,624,000 of which \$17,417,000 is the result of the capitalization of leases in 1977 in accordance with Financial Accounting Standards Board Statement No. 13 (see Note 4). Taxes other than income taxes increased \$11,426,000 or 12%, principally due to taxes levied on the production of crude oil and natural gas and property taxes. Selling, general and administrative expenses decreased \$30,466,000, primarily due to the capitalization of leases in 1977 and the sale of West Coast refining and marketing properties in 1976. Interest and expense on indebtedness increased \$13,653,000 due to the capitalization of leases in 1977. The provision for income taxes is \$49,923,000 higher with an increase of \$54,888,000 for U. S. taxes partly offset by a decrease of \$4,965,000 for foreign taxes.

### Year Ended December 31, 1976

The Company's earnings for 1976 increased \$69,088,000 or 20% over 1975. Of total 1976 earnings, domestic operations accounted for 71% or \$292,965,000, an increase of \$55,608,000 or 23%. Foreign earnings accounted for \$118,691,000 of total earnings, an increase of \$13,480,000 or 13%. The improved earnings were primarily due to higher sales prices for motor fuel, natural gas and chemicals, and improved equity in earnings of nonsubsidiary companies. Foreign currency translation losses reduced earnings \$37,338,000 in 1976 and were not material in 1975.

Total revenues increased \$624,053,000 or 12% including \$563,959,000 for sales and other operating revenues which was the result of higher selling prices partly offset by lower sales volumes for natural gas, ethylene and fertilizer and lower fertilizer prices. The Company's equity in earnings of nonsubsidiary companies increased \$15,245,000 because of improved earnings of foreign affiliates. A \$44,849,000 increase in other revenues primarily consists of increased interest income and profit from sale of certain properties, plants and equipment.

Total costs and expenses increased \$554,965,000 or 11%. Increased costs and operating expenses of \$349,093,000 are accounted for by higher volumes and prices for crude oil purchases and increased production and operating expenses. The reduction of \$22,042,000 in depreciation, depletion, amortization and retirements is attributed to a reduction of \$50,042,000 in dry hole charges partially offset by an increase in retirements. Interest and expense on indebtedness increased \$18,530,000 due to slightly higher interest rates on higher average indebtedness. The provision for income taxes was up \$210,369,000, with increases of \$142,936,000 for foreign taxes and \$67,433,000 for U. S. taxes.

Copies of the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission may be obtained by writing to Mr. Harvey W. Thompson, Secretary, Phillips Petroleum Company, Bartlesville, OK 74004.



**TEN-YEAR FINANCIAL REVIEW** (dollars in millions, except per share amounts)

|                                                      | 1977     | 1976     | 1975     | 1974     | 1973     | 1972     | 1971     | 1970     | 1969     | 1968     |
|------------------------------------------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| <b>CONSOLIDATED BALANCE SHEETS AT DECEMBER 31</b>    |          |          |          |          |          |          |          |          |          |          |
| <b>Assets</b>                                        |          |          |          |          |          |          |          |          |          |          |
| Current assets:                                      |          |          |          |          |          |          |          |          |          |          |
| Cash and short-term investments .....                | \$ 326.7 | \$ 702.3 | \$ 522.7 | \$ 393.5 | \$ 441.1 | \$ 338.5 | \$ 225.1 | \$ 137.1 | \$ 187.4 | \$ 135.4 |
| Accounts and notes receivable — net .....            | 790.6    | 714.8    | 633.6    | 615.9    | 507.1    | 383.8    | 382.8    | 410.6    | 392.3    | 388.3    |
| Inventories:                                         |          |          |          |          |          |          |          |          |          |          |
| Crude oil, petroleum products and chemicals ..       | 369.7    | 315.3    | 326.5    | 355.7    | 225.9    | 231.2    | 240.5    | 212.6    | 217.6    | 220.3    |
| Merchandise .....                                    | 15.7     | 12.8     | 13.6     | 13.3     | 13.1     | 14.6     | 18.7     | 21.9     | 24.1     | 21.5     |
| Materials and supplies .....                         | 112.5    | 117.6    | 129.5    | 91.9     | 49.9     | 35.1     | 36.1     | 35.7     | 31.2     | 29.6     |
| Total current assets .....                           | 1,615.2  | 1,862.8  | 1,625.9  | 1,470.3  | 1,237.1  | 1,003.2  | 903.2    | 817.9    | 852.6    | 795.1    |
| Investments and long-term receivables — net .....    | 501.1    | 460.1    | 437.5    | 399.3    | 423.7    | 377.8    | 391.8    | 361.6    | 383.5    | 332.1    |
| Properties, plants and equipment — net .....         | 3,560.8  | 2,822.1  | 2,601.7  | 2,329.7  | 2,143.6  | 1,857.8  | 1,838.0  | 1,850.5  | 1,846.4  | 1,749.9  |
| Prepaid and deferred charges .....                   | 159.4    | 102.6    | 82.4     | 50.3     | 44.0     | 30.8     | 33.7     | 41.5     | 39.9     | 36.4     |
| Total assets .....                                   | 5,836.5  | 5,247.6  | 4,747.5  | 4,249.6  | 3,848.4  | 3,269.6  | 3,166.7  | 3,071.5  | 3,122.4  | 2,913.5  |
| <b>Liabilities and stockholders' equity</b>          |          |          |          |          |          |          |          |          |          |          |
| Current liabilities:                                 |          |          |          |          |          |          |          |          |          |          |
| Accounts and notes payable .....                     | \$ 673.9 | \$ 559.4 | \$ 526.3 | \$ 542.9 | \$ 400.7 | \$ 276.5 | \$ 254.5 | \$ 280.3 | \$ 251.1 | \$ 266.8 |
| Long-term debt and obligations due                   |          |          |          |          |          |          |          |          |          |          |
| within one year .....                                | 80.1     | 70.4     | 73.1     | 61.7     | 82.5     | 52.7     | 52.2     | 106.1    | 75.9     | 47.1     |
| Accrued taxes .....                                  | 413.5    | 428.8    | 261.9    | 264.9    | 117.7    | 113.1    | 102.5    | 114.5    | 119.7    | 87.5     |
| Other accruals .....                                 | 54.6     | 49.5     | 48.3     | 43.2     | 42.8     | 40.6     | 36.1     | 28.9     | 27.9     | 27.5     |
| Total current liabilities .....                      | 1,222.1  | 1,108.1  | 909.6    | 912.7    | 643.7    | 482.9    | 445.3    | 529.8    | 474.6    | 428.9    |
| Long-term debt .....                                 | 766.7    | 839.0    | 892.7    | 658.2    | 799.1    | 791.8    | 800.2    | 687.9    | 787.4    | 655.2    |
| Other long-term liabilities .....                    | 49.8     | —        | —        | —        | —        | —        | —        | —        | —        | —        |
| Accrued contingent liabilities .....                 | 94.1     | 60.3     | 66.4     | 60.0     | 90.4     | 67.0     | 60.7     | 57.4     | 50.5     | 45.2     |
| Obligations under capital leases .....               | 156.3    | 175.8    | 199.6    | 221.1    | 242.4    | —        | —        | —        | —        | —        |
| Deferred income taxes .....                          | 374.3    | 277.0    | 185.7    | 57.0     | 48.3     | 61.5     | 63.0     | 57.3     | 59.7     | 68.4     |
| Other deferred credits .....                         | 76.1     | 74.7     | 75.4     | 77.1     | 73.7     | 41.9     | 41.8     | 36.3     | 51.7     | 63.5     |
| Minority interest in consolidated subsidiaries ..... | 10.3     | 10.5     | 12.0     | 8.0      | 5.4      | 4.7      | 6.5      | 9.9      | 21.1     | 15.6     |
| Stockholders' equity:                                |          |          |          |          |          |          |          |          |          |          |
| Common stock, \$1.25 par value .....                 | 192.1    | 191.4    | 190.7    | 190.7    | 190.7    | 190.6    | 190.5    | 190.3    | 190.3    | 189.7    |
| Capital in excess of par value of common stock ..    | 488.8    | 472.3    | 455.1    | 451.3    | 444.0    | 440.8    | 437.2    | 433.3    | 433.3    | 427.4    |
| Earnings employed in the business .....              | 2,406.2  | 2,038.8  | 1,760.8  | 1,617.8  | 1,325.7  | 1,211.7  | 1,160.9  | 1,125.4  | 1,110.4  | 1,076.5  |
|                                                      | 3,087.1  | 2,702.5  | 2,406.6  | 2,259.8  | 1,960.4  | 1,843.1  | 1,788.6  | 1,749.0  | 1,734.0  | 1,693.6  |
| Less treasury stock .....                            | .3       | .3       | .5       | 4.3      | 15.0     | 23.3     | 39.4     | 56.1     | 56.6     | 56.9     |
| Total stockholders' equity .....                     | 3,086.8  | 2,702.2  | 2,406.1  | 2,255.5  | 1,945.4  | 1,819.8  | 1,749.2  | 1,692.9  | 1,677.4  | 1,636.7  |
| Total liabilities and stockholders' equity .....     | 5,836.5  | 5,247.6  | 4,747.5  | 4,249.6  | 3,848.4  | 3,269.6  | 3,166.7  | 3,071.5  | 3,122.4  | 2,913.5  |
| Stockholders' equity per share* .....                | \$ 20.08 | \$ 17.65 | \$ 15.78 | \$ 14.82 | \$ 12.85 | \$ 12.07 | \$ 11.70 | \$ 11.43 | \$ 11.33 | \$ 11.09 |

**PROPERTIES, PLANTS AND EQUIPMENT**
**Gross investment**

|                          |           |           |           |           |           |           |           |           |           |           |
|--------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Natural resources .....  | \$3,751.3 | \$3,066.4 | \$2,700.5 | \$2,544.9 | \$2,182.6 | \$1,909.9 | \$1,803.3 | \$1,756.4 | \$1,736.5 | \$1,594.7 |
| Petroleum products ..... | 1,241.6   | 1,231.2   | 1,431.6   | 1,333.2   | 1,289.2   | 1,142.0   | 1,144.1   | 1,152.2   | 1,132.2   | 1,117.9   |
| Chemicals .....          | 949.4     | 800.0     | 742.3     | 706.7     | 841.3     | 763.8     | 733.5     | 684.1     | 630.0     | 583.8     |
| Other .....              | 160.4     | 142.4     | 117.8     | 110.6     | 105.2     | 98.4      | 98.6      | 100.1     | 97.4      | 97.1      |
|                          | 6,102.7   | 5,240.0   | 4,992.2   | 4,695.4   | 4,418.3   | 3,914.1   | 3,779.5   | 3,692.8   | 3,596.1   | 3,393.5   |

**Net investment**

|                          |           |           |           |           |           |          |          |          |          |          |
|--------------------------|-----------|-----------|-----------|-----------|-----------|----------|----------|----------|----------|----------|
| Natural resources .....  | \$2,298.0 | \$1,720.1 | \$1,452.4 | \$1,265.2 | \$1,000.9 | \$ 818.2 | \$ 758.9 | \$ 745.6 | \$ 748.3 | \$ 654.4 |
| Petroleum products ..... | 633.7     | 634.6     | 725.9     | 658.5     | 642.3     | 558.6    | 592.3    | 634.7    | 654.8    | 676.7    |
| Chemicals .....          | 538.2     | 390.7     | 370.2     | 355.6     | 451.8     | 433.1    | 436.1    | 416.4    | 389.2    | 362.9    |
| Other .....              | 90.9      | 76.7      | 53.2      | 50.4      | 48.6      | 47.9     | 50.7     | 53.8     | 54.1     | 55.9     |
|                          | 3,560.8   | 2,822.1   | 2,601.7   | 2,329.7   | 2,143.6   | 1,857.8  | 1,838.0  | 1,850.5  | 1,846.4  | 1,749.9  |

\*Adjusted for two-for-one stock splits in 1977 and 1969.

Note — Financial data for 1976, 1975, 1974 and 1973 have been restated to reflect adoption of capitalization of leases (see Note 4 of notes to financial statements).



|                                                                                   | 1977     | 1976     | 1975     | 1974     | 1973     | 1972     | 1971     | 1970     | 1969     | 1968     |
|-----------------------------------------------------------------------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| <b>CONSOLIDATED STATEMENTS OF INCOME</b>                                          |          |          |          |          |          |          |          |          |          |          |
| Sales and other operating revenues:                                               |          |          |          |          |          |          |          |          |          |          |
| Natural resources .....                                                           | \$ 904.1 | \$ 816.9 | \$ 752.9 | \$ 622.7 | \$ 428.7 | \$ 386.8 | \$ 368.2 | \$ 365.3 | \$ 360.9 | \$ 346.9 |
| Petroleum products .....                                                          | 4,103.1  | 3,634.6  | 3,307.4  | 3,015.7  | 1,661.1  | 1,478.9  | 1,443.3  | 1,412.6  | 1,350.6  | 1,311.1  |
| Chemicals .....                                                                   | 1,273.6  | 1,229.6  | 1,057.4  | 1,319.6  | 881.7    | 630.1    | 537.3    | 481.9    | 476.1    | 436.0    |
| Other .....                                                                       | 3.4      | 16.4     | 15.9     | 22.7     | 18.5     | 16.9     | 14.4     | 13.3     | 14.4     | 12.9     |
| Total sales and other operating revenues .....                                    | 6,284.2  | 5,697.5  | 5,133.6  | 4,980.7  | 2,990.0  | 2,512.7  | 2,363.2  | 2,273.1  | 2,202.0  | 2,106.9  |
| Other revenues (including equity in earnings of<br>nonsubsidiary companies) ..... | 121.6    | 139.4    | 79.3     | 125.0    | 83.5     | 54.8     | 49.1     | 38.2     | 30.0     | 20.3     |
| Total revenues .....                                                              | 6,405.8  | 5,836.9  | 5,212.9  | 5,105.7  | 3,073.5  | 2,567.5  | 2,412.3  | 2,311.3  | 2,232.0  | 2,127.2  |
| Costs and operating expenses .....                                                | 4,404.3  | 4,017.9  | 3,668.8  | 3,597.2  | 2,088.0  | 1,711.0  | 1,615.3  | 1,541.2  | 1,486.7  | 1,410.4  |
| Selling, general and administrative expenses .....                                | 291.8    | 322.2    | 322.5    | 311.6    | 290.5    | 298.1    | 288.3    | 288.0    | 270.5    | 267.9    |
| Depreciation, depletion, amortization and retirements .....                       | 336.7    | 304.0    | 326.0    | 273.6    | 238.9    | 223.1    | 201.3    | 198.4    | 195.1    | 187.0    |
| Taxes other than income taxes .....                                               | 104.4    | 93.0     | 93.8     | 84.8     | 69.0     | 63.9     | 59.7     | 57.6     | 53.8     | 51.8     |
| Interest and expense on indebtedness .....                                        | 82.0     | 68.3     | 49.8     | 52.8     | 62.3     | 58.8     | 62.6     | 54.2     | 49.6     | 40.5     |
| Provision for income taxes .....                                                  | 669.7    | 619.8    | 409.4    | 356.0    | 94.4     | 64.2     | 52.8     | 52.0     | 46.2     | 42.7     |
| Total costs and expenses .....                                                    | 5,888.9  | 5,425.2  | 4,870.3  | 4,676.0  | 2,843.1  | 2,419.1  | 2,280.0  | 2,191.4  | 2,101.9  | 2,000.3  |
| Income before extraordinary items<br>and accounting change .....                  | 516.9    | 411.7    | 342.6    | 429.7    | 230.4    | 148.4    | 132.3    | 119.9    | 130.1    | 126.9    |
| Extraordinary items and accounting change .....                                   | —        | —        | —        | (27.6)   | (18.2)   | —        | —        | (8.7)    | —        | 6.9      |
| Net income .....                                                                  | 516.9    | 411.7    | 342.6    | 402.1    | 212.2    | 148.4    | 132.3    | 111.2    | 130.1    | 133.8    |
| Per average share outstanding:*                                                   |          |          |          |          |          |          |          |          |          |          |
| Income before extraordinary items<br>and accounting change .....                  | \$3.37   | \$2.69   | \$2.25   | \$2.83   | \$1.52   | \$ .99   | \$ .89   | \$ .81   | \$ .88   | \$ .87   |
| Net income .....                                                                  | \$3.37   | \$2.69   | \$2.25   | \$2.65   | \$1.40   | \$ .99   | \$ .89   | \$ .75   | \$ .88   | \$ .92   |
| Dividends per share* .....                                                        | \$ .97½  | \$ .87½  | \$ .80   | \$ .72½  | \$ .65   | \$ .65   | \$ .65   | \$ .65   | \$ .65   | \$ .63¾  |
| Income before extraordinary items<br>and accounting change:                       |          |          |          |          |          |          |          |          |          |          |
| As percent of average total assets .....                                          | 9.4      | 8.3      | 7.9      | 10.6     | 6.4      | 4.6      | 4.3      | 3.9      | 4.4      | 4.5      |
| As percent of total revenues .....                                                | 8.1      | 7.1      | 6.6      | 8.4      | 7.5      | 5.8      | 5.5      | 5.2      | 5.8      | 6.0      |
| Percent of total revenues from outside U. S. ....                                 | 18.9     | 19.6     | 18.2     | 23.7     | 21.5     | 16.1     | 17.4     | 13.4     | 12.2     | 11.1     |

#### CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

|                                                                         |          |          |          |          |          |          |          |          |          |          |
|-------------------------------------------------------------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| <b>Source</b>                                                           |          |          |          |          |          |          |          |          |          |          |
| Funds from operations .....                                             | \$ 981.4 | \$ 814.7 | \$ 723.9 | \$ 758.4 | \$ 469.3 | \$ 367.4 | \$ 332.7 | \$ 316.6 | \$ 317.4 | \$ 317.5 |
| Long-term debt .....                                                    | 75.4     | 66.8     | 325.4    | 85.4     | 86.3     | 49.7     | 257.0    | 10.0     | 210.9    | 152.0    |
| Property sales and retirements (including<br>extraordinary items) ..... | 53.4     | 199.5    | 99.3     | 106.9    | 43.2     | 28.6     | 43.7     | 31.1     | 27.1     | 47.9     |
| Sales of investments (including extraordinary items) .....              | 1.2      | 24.0     | 3.7      | 20.5     | 9.6      | 26.2     | 14.3     | 23.1     | 5.3      | 32.9     |
| Capital stock .....                                                     | 17.3     | 18.0     | 7.6      | 18.0     | 11.6     | 19.8     | 20.8     | .5       | 6.8      | 108.7    |
| Other .....                                                             | 17.9     | —        | 1.5      | 14.7     | 19.1     | 4.0      | 6.5      | 2.8      | 17.4     | 8.0      |
|                                                                         | 1,146.6  | 1,123.0  | 1,161.4  | 1,003.9  | 639.1    | 495.7    | 675.0    | 384.1    | 584.9    | 667.0    |
| <b>Application</b>                                                      |          |          |          |          |          |          |          |          |          |          |
| Properties, plants and equipment:                                       |          |          |          |          |          |          |          |          |          |          |
| Natural resources .....                                                 | \$ 806.1 | \$ 483.4 | \$ 489.8 | \$ 450.7 | \$ 245.0 | \$ 196.0 | \$ 143.3 | \$ 132.3 | \$ 207.3 | \$ 171.5 |
| Petroleum products .....                                                | 83.6     | 110.6    | 139.8    | 92.3     | 45.7     | 28.0     | 26.9     | 39.6     | 35.1     | 39.7     |
| Chemicals .....                                                         | 180.8    | 103.5    | 54.9     | 68.3     | 35.9     | 38.7     | 51.6     | 62.5     | 71.4     | 72.2     |
| Other .....                                                             | 20.9     | 30.3     | 9.4      | 6.7      | 2.4      | 2.0      | 3.2      | 5.0      | 2.8      | 5.8      |
| Total .....                                                             | 1,091.4  | 727.8    | 693.9    | 618.0    | 329.0    | 264.7    | 225.0    | 239.4    | 316.6    | 289.2    |
| Investments .....                                                       | 36.3     | 36.6     | 35.3     | 9.5      | 22.7     | 6.2      | 23.2     | 7.2      | 66.1     | 18.9     |
| Reduction in long-term debt .....                                       | 162.6    | 149.4    | 112.4    | 254.9    | 101.6    | 58.1     | 144.7    | 109.5    | 78.8     | 186.8    |
| Cash dividends .....                                                    | 149.5    | 133.7    | 121.8    | 110.0    | 98.2     | 97.6     | 96.8     | 96.3     | 96.2     | 92.7     |
| Other .....                                                             | 68.4     | 37.0     | 39.3     | 47.3     | (3.9)    | 6.7      | 15.6     | 21.6     | 15.4     | 41.1     |
| Increase (decrease) in working capital .....                            | (361.6)  | 38.5     | 158.7    | (35.8)   | 91.5     | 62.4     | 169.7    | (89.9)   | 11.8     | 38.3     |
|                                                                         | 1,146.6  | 1,123.0  | 1,161.4  | 1,003.9  | 639.1    | 495.7    | 675.0    | 384.1    | 584.9    | 667.0    |

\*Adjusted for two-for-one stock splits in 1977 and 1969.

Note — Financial data for 1976, 1975, 1974 and 1973 have been restated to reflect adoption of capitalization of leases (see Note 4 of notes to financial statements).



|                                                    | 1977           | 1976           | 1975           | 1974           | 1973         | 1972         | 1971         | 1970         | 1969         | 1968         |
|----------------------------------------------------|----------------|----------------|----------------|----------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>CHEMICALS — OPERATING REVENUES</b>              |                |                |                |                |              |              |              |              |              |              |
| Basic petrochemicals and specialty chemicals ..... | \$ 420.4       | \$ 417.5       | \$ 318.9       | \$ 423.6       | \$ 166.3     | \$ 119.2     | \$ 108.2     | \$ 102.4     | \$ 102.0     | \$ 75.8      |
| Rubber chemicals .....                             | 222.4          | 190.1          | 164.4          | 173.2          | 111.2        | 93.0         | 81.2         | 70.5         | 68.0         | 66.7         |
| Plastic resins .....                               | 219.9          | 208.9          | 130.3          | 131.0          | 94.9         | 62.4         | 51.5         | 51.2         | 50.0         | 41.8         |
| Fabricated products .....                          | 173.8          | 159.6          | 151.9          | 138.5          | 110.0        | 100.0        | 86.6         | 94.0         | 95.3         | 103.6        |
| Fertilizers .....                                  | 76.7           | 77.8           | 114.3          | 160.0          | 158.0        | 100.5        | 91.6         | 72.0         | 69.1         | 67.5         |
| Synthetic fibers .....                             | 75.5           | 70.8           | 92.2           | 161.4          | 151.1        | 103.2        | 70.2         | 57.6         | 59.3         | 50.1         |
| Other sales and services .....                     | 84.9           | 104.9          | 85.4           | 131.9          | 90.2         | 51.8         | 48.0         | 34.2         | 32.4         | 30.5         |
|                                                    | <u>1,273.6</u> | <u>1,229.6</u> | <u>1,057.4</u> | <u>1,319.6</u> | <u>881.7</u> | <u>630.1</u> | <u>537.3</u> | <u>481.9</u> | <u>476.1</u> | <u>436.0</u> |

#### OTHER DATA

|                                                   |          |          |          |          |          |          |          |          |          |          |
|---------------------------------------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| Shares outstanding at year-end — thousands* ..... | 153,694  | 153,110  | 152,487  | 152,204  | 151,419  | 150,773  | 149,481  | 148,124  | 148,082  | 147,552  |
| Number of stockholders at year-end .....          | 122,296  | 120,170  | 126,865  | 131,621  | 135,966  | 153,292  | 166,012  | 172,979  | 157,052  | 145,665  |
| Total payroll including employee benefits .....   | \$ 613.2 | \$ 550.2 | \$ 528.8 | \$ 478.9 | \$ 415.1 | \$ 387.3 | \$ 352.8 | \$ 335.0 | \$ 326.8 | \$ 328.9 |
| Number of employees at year-end .....             | 28,353   | 27,797   | 30,506   | 30,802   | 33,429   | 35,265   | 33,280   | 32,208   | 32,660   | 35,359   |

\*Adjusted for two-for-one stock splits in 1977 and 1969.

## TEN-YEAR OPERATING REVIEW

### NET PRODUCTION OF LIQUID RAW MATERIALS — thousands of barrels daily

#### Crude Oil

##### United States

|                    |              |              |              |              |              |              |              |              |              |              |
|--------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Texas .....        | 48.4         | 50.8         | 54.2         | 56.3         | 57.7         | 57.7         | 54.9         | 54.6         | 51.8         | 53.7         |
| Louisiana .....    | 17.4         | 18.4         | 18.0         | 19.6         | 21.5         | 23.3         | 24.8         | 29.6         | 28.1         | 29.3         |
| Oklahoma .....     | 10.1         | 10.5         | 10.4         | 11.8         | 13.7         | 17.5         | 15.6         | 15.5         | 16.2         | 17.7         |
| Alaska .....       | 9.9          | 4.6          | 4.2          | 4.1          | 4.7          | 4.5          | 5.5          | 5.6          | 6.9          | 8.9          |
| New Mexico .....   | 6.2          | 6.8          | 6.9          | 7.4          | 8.0          | 9.0          | 9.8          | 10.4         | 10.3         | 10.3         |
| Wyoming .....      | 4.7          | 4.6          | 4.2          | 4.5          | 2.0          | 2.7          | 3.7          | 6.3          | 6.2          | 3.6          |
| Arkansas .....     | 4.7          | 4.1          | 4.1          | 3.1          | 2.4          | 2.7          | 2.6          | 2.7          | 2.7          | 1.9          |
| Other states ..... | 15.6         | 15.5         | 16.4         | 16.7         | 12.3         | 12.8         | 13.2         | 14.2         | 15.4         | 14.5         |
|                    | <u>117.0</u> | <u>115.3</u> | <u>118.4</u> | <u>123.5</u> | <u>122.3</u> | <u>130.2</u> | <u>130.1</u> | <u>138.9</u> | <u>137.6</u> | <u>139.9</u> |

##### Outside United States

|                       |              |              |              |              |              |              |              |              |              |              |
|-----------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Europe .....          | 93.1         | 92.8         | 63.1         | 11.5         | 10.7         | 11.0         | 2.3          | —            | —            | —            |
| Africa .....          | 43.6         | 38.6         | 33.8         | 38.1         | 35.5         | 23.2         | 25.5         | 20.0         | 40.0         | 30.2         |
| Middle East .....     | 5.6          | 5.9          | 6.2          | 9.1          | 9.1          | 12.6         | 14.0         | 12.2         | 2.6          | —            |
| Southeast Asia .....  | 5.6          | —            | —            | —            | —            | —            | —            | —            | —            | —            |
| Latin America .....   | —            | —            | 15.5         | 20.8         | 23.1         | 19.5         | 19.5         | 20.6         | 21.4         | 25.5         |
|                       | <u>147.9</u> | <u>137.3</u> | <u>118.6</u> | <u>79.5</u>  | <u>78.4</u>  | <u>66.3</u>  | <u>61.3</u>  | <u>52.8</u>  | <u>64.0</u>  | <u>55.7</u>  |
| Total crude oil ..... | <u>264.9</u> | <u>252.6</u> | <u>237.0</u> | <u>203.0</u> | <u>200.7</u> | <u>196.5</u> | <u>191.4</u> | <u>191.7</u> | <u>201.6</u> | <u>195.6</u> |

#### Natural Gas Liquids

|                                 |              |              |              |              |              |              |              |              |              |              |
|---------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| United States .....             | 138.2        | 130.8        | 125.9        | 132.2        | 134.8        | 137.5        | 135.4        | 131.8        | 130.3        | 138.7        |
| Europe .....                    | .2           | .3           | .3           | .3           | .3           | .3           | .2           | .2           | —            | —            |
| Latin America .....             | —            | —            | 1.8          | 2.3          | 2.3          | 2.4          | 2.6          | 2.2          | 1.1          | 1.2          |
| Total natural gas liquids ..... | <u>138.4</u> | <u>131.1</u> | <u>128.0</u> | <u>134.8</u> | <u>137.4</u> | <u>140.2</u> | <u>138.2</u> | <u>134.2</u> | <u>131.4</u> | <u>139.9</u> |
| Total all liquids .....         | <u>403.3</u> | <u>383.7</u> | <u>365.0</u> | <u>337.8</u> | <u>338.1</u> | <u>336.7</u> | <u>329.6</u> | <u>325.9</u> | <u>333.0</u> | <u>335.5</u> |



|                                                                     | 1977          | 1976          | 1975          | 1974          | 1973          | 1972          | 1971          | 1970          | 1969           | 1968          |
|---------------------------------------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|---------------|
| <b>NET NATURAL GAS PRODUCTION —</b><br>millions of cubic feet daily |               |               |               |               |               |               |               |               |                |               |
| United States .....                                                 | 1,159         | 1,247         | 1,312         | 1,433         | 1,481         | 1,534         | 1,566         | 1,591         | 1,436          | 1,429         |
| Europe .....                                                        | 184           | 133           | 125           | 116           | 94            | 85            | 58            | 40            | 14             | 4             |
| Latin America .....                                                 | —             | —             | 18            | 21            | 28            | 34            | 41            | 48            | 33             | —             |
|                                                                     | <u>1,343</u>  | <u>1,380</u>  | <u>1,455</u>  | <u>1,570</u>  | <u>1,603</u>  | <u>1,653</u>  | <u>1,665</u>  | <u>1,679</u>  | <u>1,483</u>   | <u>1,433</u>  |
| <b>WELL COMPLETIONS — Net</b>                                       |               |               |               |               |               |               |               |               |                |               |
| United States — Exploratory .....                                   | 5             | 18            | 44            | 53            | 38            | 37            | 21            | 25            | 24             | 24            |
| — Development .....                                                 | 134           | 161           | 172           | 136           | 156           | 86            | 70            | 67            | 118            | 98            |
| Outside United States — Exploratory .....                           | 14            | 13            | 21            | 24            | 23            | 19            | 20            | 20            | 17             | 17            |
| — Development .....                                                 | 6             | 8             | 12            | 16            | 9             | 4             | 18            | 4             | 9              | 5             |
|                                                                     | <u>159</u>    | <u>200</u>    | <u>249</u>    | <u>229</u>    | <u>226</u>    | <u>146</u>    | <u>129</u>    | <u>116</u>    | <u>168</u>     | <u>144</u>    |
| <b>OIL AND GAS WELLS — Net</b>                                      |               |               |               |               |               |               |               |               |                |               |
| United States — Oil .....                                           | 6,210         | 6,202         | 6,191         | 6,184         | 5,806         | 5,795         | 6,004         | 6,316         | 6,457          | 6,387         |
| — Gas and condensate .....                                          | 2,132         | 2,129         | 2,122         | 2,086         | 2,006         | 1,945         | 1,936         | 1,964         | 1,997          | 1,961         |
| Outside United States — All wells .....                             | 105           | 91            | 82            | 267           | 262           | 249           | 310           | 312           | 387            | 465           |
|                                                                     | <u>8,447</u>  | <u>8,422</u>  | <u>8,395</u>  | <u>8,537</u>  | <u>8,074</u>  | <u>7,989</u>  | <u>8,250</u>  | <u>8,592</u>  | <u>8,841</u>   | <u>8,813</u>  |
| <b>NET OIL AND GAS ACREAGE — thousands of acres</b>                 |               |               |               |               |               |               |               |               |                |               |
| United States .....                                                 | 5,965         | 6,570         | 7,197         | 7,203         | 6,792         | 5,793         | 5,382         | 5,273         | 4,709          | 4,577         |
| Canada .....                                                        | 2,130         | 3,174         | 3,452         | 3,511         | 3,166         | 2,820         | 2,246         | 2,174         | 1,867          | —             |
| Latin America .....                                                 | 4,679         | 3,624         | 12,228        | 13,012        | 5,829         | 3,310         | 695           | 3,185         | 4,742          | 4,854         |
| Europe .....                                                        | 1,002         | 1,457         | 1,457         | 1,511         | 1,397         | 1,267         | 1,227         | 1,424         | 1,394          | 1,375         |
| Africa .....                                                        | 6,895         | 7,185         | 7,994         | 13,158        | 9,906         | 13,816        | 8,403         | 9,009         | 13,860         | 16,999        |
| Middle East .....                                                   | 20            | 1,753         | 1,753         | 3,031         | 3,031         | 2,893         | 13,852        | 13,852        | 12,252         | 12,079        |
| Southeast Asia .....                                                | 10,139        | 24,960        | 28,564        | 32,086        | 37,348        | 31,018        | 38,852        | 47,106        | 57,627         | 40,000        |
| New Zealand and Australia .....                                     | 23,829        | 23,678        | 1,511         | 5,335         | 6,072         | 5,969         | 6,272         | 7,290         | 9,290          | 10,833        |
|                                                                     | <u>54,659</u> | <u>72,401</u> | <u>64,156</u> | <u>78,847</u> | <u>73,541</u> | <u>66,886</u> | <u>76,929</u> | <u>89,313</u> | <u>105,741</u> | <u>90,717</u> |
| <b>REFINERY RUNS — thousands of barrels daily</b>                   |               |               |               |               |               |               |               |               |                |               |
| United States — Crude oil .....                                     | 297           | 318           | 368           | 373           | 395           | 386           | 371           | 364           | 359            | 356           |
| — Natural gas liquids .....                                         | 165           | 142           | 133           | 150           | 149           | 159           | 157           | 162           | 158            | 159           |
| Outside United States — Crude oil .....                             | —             | —             | 2             | 1             | 2             | 3             | 8             | 15            | 15             | 16            |
|                                                                     | <u>462</u>    | <u>460</u>    | <u>503</u>    | <u>524</u>    | <u>546</u>    | <u>548</u>    | <u>536</u>    | <u>541</u>    | <u>532</u>     | <u>531</u>    |
| <b>REFINERY CAPACITY — thousands of barrels daily</b>               |               |               |               |               |               |               |               |               |                |               |
| United States — Crude oil .....                                     | 323           | 323           | 408           | 408           | 404           | 404           | 399           | 398           | 390            | 390           |
| — Natural gas liquids .....                                         | 186           | 186           | 165           | 165           | 165           | 165           | 165           | 165           | 165            | 165           |
| Outside United States — Crude oil .....                             | —             | —             | —             | 6             | 4             | 4             | 24            | 24            | 24             | 24            |
|                                                                     | <u>509</u>    | <u>509</u>    | <u>573</u>    | <u>579</u>    | <u>573</u>    | <u>573</u>    | <u>588</u>    | <u>587</u>    | <u>579</u>     | <u>579</u>    |
| <b>PETROLEUM PRODUCTS SOLD — thousands of barrels daily</b>         |               |               |               |               |               |               |               |               |                |               |
| United States                                                       |               |               |               |               |               |               |               |               |                |               |
| Automotive gasoline .....                                           | 237           | 272           | 304           | 286           | 299           | 323           | 311           | 314           | 294            | 279           |
| Aviation fuels .....                                                | 26            | 25            | 24            | 30            | 27            | 27            | 27            | 35            | 38             | 36            |
| Distillates .....                                                   | 72            | 87            | 99            | 100           | 95            | 101           | 98            | 106           | 109            | 120           |
| Liquefied petroleum gas .....                                       | 119           | 101           | 97            | 92            | 91            | 111           | 106           | 114           | 107            | 106           |
| Other products .....                                                | 37            | 43            | 31            | 33            | 41            | 43            | 41            | 47            | 48             | 44            |
|                                                                     | <u>491</u>    | <u>528</u>    | <u>555</u>    | <u>541</u>    | <u>553</u>    | <u>605</u>    | <u>583</u>    | <u>616</u>    | <u>596</u>     | <u>585</u>    |
| Outside United States .....                                         | 41            | 49            | 56            | 60            | 84            | 72            | 88            | 64            | 36             | 32            |
| Total .....                                                         | <u>532</u>    | <u>577</u>    | <u>611</u>    | <u>601</u>    | <u>637</u>    | <u>677</u>    | <u>671</u>    | <u>680</u>    | <u>632</u>     | <u>617</u>    |
| <b>MARKETING OUTLETS</b> .....                                      | 14,773        | 15,628        | 17,722        | 18,574        | 21,225        | 23,678        | 24,359        | 25,354        | 25,744         | 26,001        |



## MANAGEMENT CHANGES

Harry D. Brookby, a member of the board and executive vice president planning and budgeting, elected to take early retirement February 1, 1978. Brookby, who had 40 years of service, was succeeded by LeRoy Culbertson. Formerly vice president planning and budgeting Natural Resources Group, Culbertson was elected senior vice president.

Kenneth Heady, formerly vice president and associate general counsel was elected vice president and general counsel. He succeeded Lloyd G. Minter, who has elected to retire May 1, 1978. Until then he remains a senior vice president, director and member of the executive committee.

In the Natural Resources Group, Edwin Van den Bark, formerly vice president exploration and production, was elected senior vice president exploration and production;

L. M. Rickards, formerly manager North America exploration and production, was elected vice president North America exploration and production.

In the Chemicals Group, R. G. Askew, formerly manager petrochemical and supply, was elected vice president petrochemicals; R. G. Rhodes, formerly manager planning and budgeting, was elected vice president planning and development; R. G. Wallace, formerly manager plastics, was elected vice president plastics.

C. H. Trotter was elected vice president corporate management services. He had been manager management services. Richard E. Roberson, Jr., was elected comptroller, succeeding Harry B. Stead, who retired after 37 years with the Company.

## PRODUCTS AND SERVICES Sold by Phillips Petroleum Company and its Subsidiaries

### PRODUCTS

#### Automotive gasolines

#### Diesel fuel

**Aviation fuels** — gasolines, commercial and military jet fuels, anti-icing additive

**Stove oil No. 1** (Range oil)

**Furnace oil No. 2**

#### Residual fuel oils

**Liquefied petroleum gases** — motor fuel (propane, butane, butane-propane mixtures), commercial propane, butane, butane-propane mixtures, normal and isobutane

#### Kerosene

#### Crude oil

#### Natural gas

#### Liquefied natural gas

**Lubricants** — automotive, industrial, farm and ranch, marine and fleet lubricants; aviation and snowmobile oils

**Tire and tubes** — passenger car, truck, trailer, farm

**Batteries** — automobile, truck and bus, farm, marine, small vehicles

**Automotive accessories** — anti-freeze, auto lamps, spark plugs, wiper blades, filters, belts, automotive chemicals

#### Fertilizers:

Anhydrous ammonia  
Aqua ammonia  
Ammonium nitrate  
Urea-ammonium nitrate solution  
Nitrate solution  
Mixed liquid fertilizer solutions

**Blasting materials** — industrial ammonium nitrate

#### Asphalt and asphalt emulsions

#### Road oils

#### Wax

**Helium** — high-purity gas and liquid, and cryogenic hardware

#### Rubber chemicals:

Butadiene and Butene-1  
Carbon black  
Synthetic elastomers and plastomers

Extender oils  
Plastomer compounds

#### Plastic resins:

Polyethylenes  
Polypropylenes  
Polyvinylchloride  
Polyphenylene sulfide  
Butadiene-styrene copolymers

**Rigid packaging** — paperboard and plastic containers for consumer and industrial products

#### Rigid packaging machinery

**Polypropylene packaging material** — decorative and functional

**Plastic tubular goods** — plastic pipe and fittings, conduit and duct, corrugated conduit

**Custom fabricated plastic products** — for the automotive, appliance, radio and TV industries

#### Other plastic products:

Horticulture ware  
Bakery handling equipment  
Fifth wheel liner  
Guy wire guard  
Poultry and egg handling equipment

**Coating or laminating plastics and other materials** — to paper, foil and other substrates for the paper, packaging automotive, food, locker and specialty fields

#### Release paper and film

#### Special chemicals:

Aliphatic solvents such as pentanes, hexanes, heptanes  
Benzene  
Binder for solid rocket fuels  
Calcium petroleum sulfonate  
Cyclohexane  
Ethylene  
Furan  
High-purity hydrocarbons for research and development (available in several grades of purity) — aromatics, cycloolefins, cycloparaffins, diolefins, olefins, paraffins  
Hydrocarbon aerosol propellants  
Mercaptans  
Methylvinylpyridine  
Mixed xylenes  
Odorless solvents  
Orthoxylene  
Paraffinic naphtha  
Paraxylene

#### Petro-sulfur compounds

Odorants for natural gas and LP-gas  
Mercaptan intermediates (for agricultural chemicals and other uses) such as ethyl, n-propyl, n-butyl and n-dodecyl mercaptans, and ethylthioethanol  
Sulfolane and sulfolene  
2-Mercaptoethanol  
Polymerization solvents  
Propylene  
Reference fuels  
Sealant polymer  
Special fuels  
Sulfur  
Sulfuric acid  
Toluene  
Viscosity index improver

#### Tubing and metal products:

Stainless steel and nickel alloy tubing for aerospace and other industries  
Custom fabricated parts for automotive, refrigeration, and other industries  
Patio and porch furniture

#### Synthetic fibers:

Olefin  
Polyester

#### Carpet backing

Formed fabrics

#### Construction materials:

Pavement reinforcing fabric  
Drilling mud and cement additives

### SERVICES

**Process evaluation service and analysis and computer control systems for petroleum, petrochemical and chemical industries**

**Radio frequency geophysical data collection systems**

**Tanker hauling**

**Terminaling services**

**LPG importing services**

**Metallurgical consulting services**

**Liquefied natural gas technological services**

**Pipeline transportation**

**Project management, engineering design and process engineering services**



## DIRECTORS

**Clark M. Clifford**,† senior partner in law firm of Clifford, Glass, McIlwain & Finney, Washington, D. C.

**Wm. C. Douce**,\* President and Chief Operating Officer

**L. H. Johnstone**,\* Executive Vice President Chemicals Group

**E. Douglas Kenna**,\*\* Executive Vice President of Carrier Corporation, Syracuse, New York, a manufacturer of air conditioning equipment

**C. M. Kittrell**,\* Executive Vice President Petroleum Products Group

**Melvin R. Laird**,‡ Senior Counsellor for Reader's Digest Association, Washington, D. C.

**W. F. Martin**,\* Chairman of the Board of Directors and Chief Executive Officer

**David B. Meeker**,†‡ President and Chief Executive Officer of the Hobart Corporation, Troy, Ohio, a manufacturer of food equipment and home appliances

**Lloyd G. Minter**,\* Senior Vice President

**Victor H. Palmieri**,\*\*† Chairman of the Board of Directors of Victor Palmieri & Company, Inc., Los Angeles, California, a corporate management services company

**William Piel, Jr.**,\*\* partner in law firm of Sullivan & Cromwell, New York City, New York

**W. A. Roberts**,\* Executive Vice President Natural Resources Group

**Robert N. Sears**, Senior Vice President, New York City, New York

**W. Clarke Wescoe**,†‡ Chairman of the Board of Directors and Chief Executive Officer of Sterling Drug Inc., New York City, New York

**Dolores D. Wharton**,\*\* author, Albany, New York

**Francis M. Wheat**,\*\*‡ partner in the law firm of Gibson, Dunn & Crutcher, Los Angeles, California

\*Member Executive Committee  
\*\*Member Audit Committee

†Member Compensation Committee  
‡Member Nominating Committee

## PRINCIPAL OFFICERS AND MANAGERS

**W. F. Martin**, Chairman of the Board of Directors and Chief Executive Officer

**Wm. C. Douce**, President and Chief Operating Officer

### NATURAL RESOURCES GROUP

**W. A. Roberts**, Executive Vice President

**Edwin Van den Bark**, Senior Vice President Exploration and Production

**L. M. Rickards**, Vice President North America Exploration and Production

**C. J. Silas**, Vice President Gas and Gas Liquids

**W. W. Dunn**, Managing Director Latin America - Asia Exploration and Production

**Earl Guitar**, Managing Director Europe - Africa Exploration and Production (London)

**W. R. Bohon**, Manager Energy Minerals

**B. M. Boyce**, Manager Worldwide Drilling and Production

**C. D. Davidson**, Manager International Affairs and Administration

**W. R. Guthrie**, Manager Planning and Budgeting

**W. T. Kuepker**, Manager Accounting

**A. R. Rehrig**, Manager Operations Analysis and Control

**O. D. Thomas**, Manager Worldwide Exploration

### PETROLEUM PRODUCTS GROUP

**C. M. Kittrell**, Executive Vice President

**Geo. F. L. Bishop**, Vice President Refining

**John E. Harris, Jr.**, Vice President Petroleum Supply

**G. J. Morrison**, Vice President Marketing

**R. S. McConnell**, President, Applied Automation, Inc.

**C. A. Mink**, Manager Europe - Africa Petroleum Products (London)

**D. B. Taylor**, Manager Transportation

**J. E. Arnold**, Manager Planning and Budgeting

**W. E. Barr**, Manager Administration

**T. C. Heritage**, Manager Accounting

**T. D. Lockin**, Manager Operations Analysis and Control

### CHEMICALS GROUP

**L. H. Johnstone**, Executive Vice President

**R. G. Askew**, Vice President Petrochemicals

**R. G. Rhodes**, Vice President Planning and Development

**R. G. Wallace**, Vice President Plastics (Houston)

**A. J. Head**, President, Phillips Fibers Corporation (Greenville, South Carolina)

**W. D. Payton**, Manager Fertilizer

**J. N. Scott**, Manager Rubber Chemicals

**J. J. Kavanagh**, Manager Europe - Africa Region (Brussels)

**Frank Rendon**, Manager Latin America Region (Houston)

**C. M. Wilson**, Manager Asia Region (Hong Kong)

**R. M. Dixon**, Manager Administration

**W. H. Guthrie**, Manager Business Promotion

**H. F. Thill**, Controller

### CORPORATE STAFF

**Lloyd G. Minter**, Senior Vice President\*

**Robert N. Sears**, Senior Vice President (New York City Office)

**LeRoy Culbertson**, Senior Vice President Planning and Budgeting

**O. W. Armstrong**, Vice President and Treasurer

**Sloan K. Childers**, Vice President Public Affairs

**Glenn A. Cox**, Vice President Management Information and Control

**J. W. Davison**, Vice President Research and Development

**Kenneth Heady**, Vice President and General Counsel

**Carstens Slack**, Vice President Washington Office (Washington, D. C.)

**W. R. Thomas**, Vice President Human Resources

**C. H. Trotter**, Vice President Corporate Management Services

**H. D. Trotter**, Vice President Engineering and Services

### OTHER EXECUTIVES

**R. Y. Bandy, Jr.**, Associate General Counsel

**S. E. Floren**, Associate General Counsel

**R. P. Howard**, Associate General Counsel

**C. J. Roberts**, Associate General Counsel

**Richard E. Roberson, Jr.**, Comptroller

**Harvey W. Thompson**, Secretary

**M. L. Collins**, Manager Real Estate and Insurance

**R. S. Dickson**, Manager Information Services

**D. R. Hynes**, Manager Purchasing

**W. J. Kramer**, Manager Aviation

**Joseph W. O'Toole**, General Tax Officer

**H. D. Powell**, Manager Operations Analysis and Control

\*Lloyd G. Minter has elected to retire May 1, 1978.





**PRINCIPAL SUBSIDIARIES  
AND AFFILIATES**

APPLIED AUTOMATION, INC.  
PACIFIC PETROLEUMS LTD.  
PETROCHIM  
PHILLIPS COAL COMPANY  
PHILLIPS FIBERS CORPORATION  
PHILLIPS PETROLEUM COMPANY EUROPE-AFRICA  
PHILLIPS PIPE LINE COMPANY  
PHILLIPS PUERTO RICO CORE INC.  
PHILLIPS URANIUM CORPORATION  
PHILTANKERS INC.  
PIER 66 COMPANY  
SEALRIGHT CO., INC.  
PHILLIPS CHEMICAL COMPANY,  
a division of Phillips Petroleum Company

**OFFICES**

**PRINCIPAL OFFICES**  
Bartlesville, Oklahoma 74004  
80 Broadway, New York, New York 10005  
306 South State Street, Dover, Delaware 19901

**STOCK TRANSFER OFFICES**  
Phillips Petroleum Company  
80 Broadway  
New York, New York 10005

Phillips Petroleum Company  
15 Exchange Place  
Jersey City, New Jersey 07302

Montreal Trust Company  
15 King Street West  
Toronto, Ontario, Canada M5H 1B4

**REGISTRARS**  
Manufacturers Hanover Trust Company  
40 Wall Street  
New York, New York 10005

Canada Permanent Trust Company  
20 Eglinton Avenue West  
Toronto, Ontario, Canada M4R 2E2